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STATE IMPLEMENTATION OF RECENT FOOD STAMP PROGRAM REFORMS

HEARING

BEFORE THE

SUBCOMMITTEE ON NUTRITION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

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STATE IMPLEMENTATION OF RECENT FOOD STAMP PROGRAM REFORMS

TUESDAY, OCTOBER 18, 1983

U.S. SENATE,
SUBCOMMITTEE ON NUTRITION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:50 a.m., in room SR-328A, Russell Senate Office Building, Hon. Robert Dole (chairman of the subcommittee) presiding.

Present: Senators Dole and Melcher.

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. I apologize for being a bit late. We have a little matter on the floor that hopefully will give us time to complete these hearings. I do not know when the first vote may come. So I am going to insert in the record a statement that I have which would outline the purpose of the hearing.[1] I would just say in a general way I want to thank all of the witnesses for coming. Some have come long distances.

During the budget process the last 2 years, the Congress has enacted many food stamp program reforms that have helped to enhance the image of this often highly criticized program. For example, with few exceptions, students and strikers have been eliminated from program participation.

I am a strong supporter of the food stamp program because it does fulfill a very vital role in providing food assistance to needy Americans. I think we must make certain that the program is being properly and vigorously administered and that the benefits are properly targeted and that fraud and abuse are kept to a minimum. It should be a program responsive to the needs of low-income families and we should consider the legitimate responsibility we have to the American taxpayers.

There are a number of efforts, I think particularly on the House side, to undo all of the things we did in the reconciliation process of 1981 and 1982, which resulted in savings of about $7 billion in the food stamp program over a 3-year period. Frankly, with deficits of $200 billion, and we are all searching around, particularly in my Finance Committee, trying to find a way to reduce those deficits. This is not a time to try to undo what we did in 1981, and I would hope that we might not act on any increases in this program until

[1] See p. 49 for the prepared statement of Senator Dole.

the task force appointed by the President has reported and we have had a chance to have hearings for that group, probably sometime early next year.

So I would just say that we are losing a lot of money through overpayments, about $1 billion a year it is estimated, on payments to ineligible recipients as well as outright fraud. I had often hoped that the media and the hunger activists might focus on some of the abuses so that if we could resolve some of the abuses we might be able to do more in areas that they have a great concern about. It is a good program. It should be continued. And I think we have an outstanding group of witnesses who can tell us how it is working in their States and how it is being implemented. And, if I might, I am going to ask the following witnesses to come up and we will call on you individually, but at least all come up at once:

Leland Hall, director, Office of Food Programs, if you will take the chair on my right, Michigan Department of Social Services; president of the American Association of Food Stamp Directors.

Dr. Donald Roark, commissioner, Mississippi Department of Public Welfare; chairman of the Food Stamp Committee, National Council of State Public Welfare Administrators.

Claude E. Hill, deputy investigator general, Texas Department of Human Resources.

Carla Nakata, director of food programs, Kansas Department of Social and Rehabilitation Services.

Walter Cohen, secretary of the Pennsylvania Department of Public Welfare, accompanied by Patricia Jacobs, deputy secretary for income maintenance.

John Cubine, commissioner of social insurance, Kentucky Cabinet for Human Resources.

James A. Krauskopf, commissioner, New York City Human Resources Administration.

John Taber, associate director, Washington office, on behalf of Dr. Robert Smith, commissioner, Alaska Department of Health and Social Services.

Following that, we are going to hear from John Bode, Deputy Assistant Secretary, Food and Consumer Services, USDA and Tony Gabriel, Deputy Inspector General, U.S. Department of Agriculture.

What I hope we might do is, rather than everybody repeat or say the same thing for the first 2 or 3 minutes, if we might start with Mr. Hall and make the points that you think might be helpful to us. You have to administer the law but we have to provide most of the money and, hopefully, some of the direction. I do not think we can do that properly unless we talk to people like yourselves who are out there on the firing line every day trying to make it work, where you see some of the good things in the program and probably some of the bad things. Maybe some of those can be corrected, maybe they cannot.

We are very pleased to have you here. Maybe we can start with you, Mr. Hall.

STATEMENT OF LELAND HALL, DIRECTOR, OFFICE OF FOOD PROGRAMS, MICHIGAN DEPARTMENT OF SOCIAL SERVICES, AND PRESIDENT, AMERICAN ASSOCIATION OF FOOD STAMP DIRECTORS, LANSING, MICH.

Mr. HALL. Thank you very much.

My name is Leland Hall and I am director of the Office of Food Programs for Michigan.

My comments today will focus on the on-line benefits delivery methodology, activities directed toward the small percentage of households who fraudulently obtain benefits. I would like to talk a little bit about our experiences and other States' experiences with retrospective budgeting and monthly reporting.[1]

But before we get into all of that, I would like to say that Michigan has had a serious problem in years past, as many States have, with duplicate participation in the program. And we have used the tools which you have provided with respect to incentive funding, with respect to data processing and with respect to fraud detection and so on with rather dramatic results. And I would say that our on-line, Senator Dole, has received national acclaim and the Secretary of Agriculture has awarded our agency a certificate of appreciation in May of this year.

And before I came here, I had some of these food stamp participation cards made up for all members of your subcommittee, and yours is right on the top.

Senator DOLE. Thank you.

Mr. HALL. So you know how they are void but they are valid. They are food stamp participation cards for the State of Michigan. Let me have just one of those back. I want to, you know, sort of illustrate how this works.

What the issuance sites have, when a client comes in with one of these little white cards, which is called a food stamp participation card, is that the card is given to the issuance clerk at the issuance site. This then is run through an on-line terminal, just like you would your normal credit cards or your ready money card, or whatever you want to call it, and this terminal then lights up. There are eight things that can happen. You can be approved. You can have added benefits, you could have already participated; you could have the fact your certification has expired; the fact there are no benefits for you this month for whatever reason. And this system really prevents fraud. If you have already participated, you cannot come in and participate again.

I have a prepared statement that I have provided the committee. I would just point out exhibit A. Here is what we had in duplicate participation, in 1981 when we had mostly ATP counties. This is what we project for 1984 when all the 17 major urban counties in the State of Michigan will be on this on-line system. Duplicate participation, paper ATP documents will just be a thing of the past. I do not necessarily recommend that the committee mandate an on-line issuance system for everybody in the country, because we do not have it statewide. We have it in the 17 major urban counties, or we will have it for the 17 major urban counties. We do not have

[1] See p. 52 for the prepared statement of Mr. Hall.

it there yet. In the other 66 counties, we have direct mail issuance, where the counties are obligated to actually put these food coupons in the envelope and mail them out to the clients in these relatively rural counties and places that have great expanses of travel.

So our on-line system is actually a fraud preventative. It is not something that we have to detect fraud after the fact. That is much more costly, as I am sure you can understand, than trying to prevent fraud on the front end of the system.

Let me just make a couple of comments about our fraud detection activities. We have, between July 1981 and August 1983, 1,821 fraud hearings, conducted by the administrative law judges. Out of these 1,800 we have found fraud in about 1,600. In other words, our workers do not frivolously bring administrative fraud hearings. However, I would point out that in the universe of about 450,000 cases, 1,800 or 1,600 fraud findings is not very many. And I do believe our workers are diligent in pursuing it. Maybe we are displacing some of our attention to fraud.

I would like to leave this with the committee that the retrospective budgeting and monthly reporting issue remain. We are most appreciative of the work that Congress has done with respect to delaying the mandatory date from October 1, 1983 to January 1, 1984. But this really does not solve the problem. As more and more data becomes available it seems clear that retrospective budgeting and monthly reporting does not save money. It generally increases administrative costs. The paperwork burden on local offices is greatly increased, and there have been no significant increases in the quality control area.

The most important aspect of retrospective budgeting, however, is that it works a severe hardship on clients. Maintaining a State option for monthly reporting and retrospective budgeting would, of course, be the State's discretion. You use it where it is most needed. And we do know where it is—we do know error type of cases. For example, in our own State we know that the likelihood of a case being incorrect shortly after intake is hardly likely. Therefore it would make some sense to say those types of cases should stay on monthly reporting for a period of time. But to just require everybody to monthly report really does not help us very much.

Thank you, Mr. Chairman.

Senator DOLE. Thank you. We have a vote in progress. I will have to leave here in about 2 or 3 minutes. I think we can start with Mr. Roark. We will have to sort of do it this way if we are going to finish this morning. Again, I will say to everybody, your entire statements will be made part of the record. If you will just highlight some things you are doing in your States, I am not certain how many are using the on-line system, maybe a number of States. I think it sounds like a great idea to me.

So, Dr. Roark.

STATEMENT OF DR. DONALD ROARK, COMMISSIONER, MISSISSIPPI DEPARTMENT OF PUBLIC WELFARE, JACKSON, MISS., CHAIRMAN, FOOD STAMP COMMITTEE, NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS

Dr. ROARK. Senator Dole, it is a pleasure to be here this morning.

Senator DOLE. Thank you.

Dr. ROARK. I am the Commissioner of Public Welfare for Mississippi. I also serve as chairman of the Food Stamp Committee of the National Council of State Public Welfare Administrators.[1]

I am speaking on behalf of 25 percent of Mississippi's population who are recipients of food stamps, and the executives responsible for administering the State program and the delivery of service to a growing nation of needy Americans.

I would urge you and your colleagues in Congress to make as few changes as possible in the food stamp program. In our judgment, what the food stamp program needs more than anything else now, and deserves, is a period of stability, a period free of legislative and regulatory reform. We do not have a lot of the good things that have been enacted fully implemented and we are not yet able to evaluate their effect upon the program.

As administrators, we all recognize that any program can be improved. We recognize that. We are just as concerned, I think, with improving the program and making it a sound program as anyone. There are three areas that I would call to the attention of this committee today.

First of all, unrealistic implementation schedules in terms of the rules and regulations. I will speak a little more to that in a moment. Second, monthly reporting and retrospective budgeting and the burden that it is placing upon administrators as well as food stamp recipients. Third, the unreliable program performance measurements used to determine error rates, generally known as quality control.

Over the last 2½ years, implementation of congressionally mandated and regulatory changes has taken place at a very rapid pace. It has taken place so rapidly that States do not have time to implement, as they should, in an orderly fashion. USDA's frequent use of interim final rulemaking, they call it, that precludes public involvement in the regulatory process forces States, forces us, to take ill-advised shortcuts in implementation. This unlawful rulemaking activity, since late 1982, there have been over 11 interim final rules that we have had to implement almost overnight. So we feel that we need more time to implement these changes in an orderly, realistic fashion.

Senator DOLE. I am going to have to run over and vote. I do not want to miss the vote. I will be right back. Maybe in the meantime, John Bode is here, it may be a good chance to visit with USDA, just have a little informal visit with John. [Laughter.]

You might work all this out. [Laughter.]

I will be right back.

Dr. ROARK. All right.

[A short recess was taken.]

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[1] See p. 69 for the prepared statement of Dr. Roark.

Senator DOLE. Are we all set? I guess we are with Mississippi here. We may have some other votes. I hate to rush anybody, but we are going to have to move pretty quickly. Don, if you can give me the highlights, and I am certain you have probably given Bode something while I was gone. Well, it starts with an H. [Laughter.]

Dr. ROARK. Senator Dole and members of the committee, monthly reporting and retrospective budgeting in food stamps has not been the panacea that the administration hoped for. Today that requirement is causing numerous problems for many States in this country. States have found these systems to be cost ineffective and expensive to administer. Findings can be made available from a number of projects which provide hard research data to confirm that monthly reporting and retrospective budgeting generally do not reduce errors, as they were intended to do, but do increase administrative costs and result in denial of benefits to some very needy families.

In recent months, 32 State welfare administrators signed a mailgram, and a copy of that mailgram is attached to my testimony. The bottom line was requesting Congress to trust the States with a little flexibility to utilize monthly reporting where it would be cost effective, and permit us to direct our resources and our continuing efforts to reduce fraud, waste, and abuse in areas where they would be more effective.

There was a partial response to this in the continuing resolution on September 30. A provision was placed in the resolution delaying implementation from October 1, 1983 to January 1, 1984. But a 90-day extension does not make this problem disappear. The problem is that monthly reporting and retrospective budgeting systems simply are not effective, and they do increase administrative costs and paperwork burden. Now, in addition, since the September 30 consideration of this issue in the continuing resolution, major new evidence on this matter has become available, not publicly, but it is available. The results have just become available from the only demonstration project on monthly reporting and retrospective budgeting ever conducted in the food stamp program, a major pilot project in Illinois. The results show that not only did monthly reporting fail to reduce error rates or benefit costs in the food stamp program, but benefit costs actually increased 8 percent. Even more shocking, Mr. Chairman, administrative costs skyrocketed by 20 percent. This is good evidence on the cost ineffectiveness of monthly reporting and retrospective budgeting. We believe that at the time Congress took this action they had preliminary figures indicating a potential savings in the magnitude of $267 million. CBO has since restudied this and they have discarded those preliminary figures, and they now are saying there would be zero savings in the implementation of monthly reporting and retrospective budgeting. We feel that this should be taken into consideration.

In May of this year, former Senator Henry Bellmon, a member of this committee, who at that time was Oklahoma Director of Human Services, said this, and I quote him:

> While Oklahoma has had some success with monthly reporting and retrospective budgeting in AFDC, it is our opinion the same process will not be effective in the Food Stamp Program and will, in fact, be a costly and difficult administrative process. Beyond the question of administration, retrospective budgeting has caused some

unnecessary hardship for recipients because it computes current benefits on income received one or two months ago whether or not that income is still being received.

I could give other quotes, but, in the view of State administrators, who have to implement and work with this program, MRRB does not constitute an effective deterrent to fraud. It does not reduce error rates. It increased benefit costs and excessive administrative costs.

Senator DOLE. We are going to have to move along now, if you can summarize. We have six other people here to hear from and we are going to have a vote here.

Dr. ROARK. All right, sir. Mr. Chairman, we believe that if you look at the current figures and information available that monthly reporting and retrospective budgeting in dollars and sense, the choice is very clear, it ought to be made an option to the States. Those States that can find it cost effective, any part of it, should have the opportunity.

In conclusion, Mr. Chairman, one other thing we are concerned with, for a long time the measure of error rates have been through a quality control system. We have found that there are three major weaknesses of the quality control system. It does not produce valid measurements of errors. You will probably hear a lot about errors today. Information is not produced in a timely fashion so that we can take corrective action. Third, those that have performed well under the quality control program are often penalized. The bottom line on that is that State administrators have prepared some legislative language that we believe would put the quality control program on the right track by creating a uniform quality control measure system for medicaid, AFDC, and food stamps. Our proposal, Mr. Chairman, would include a joint study by the Secretary of Health and Human Services and the Secretary of Agriculture.

Senator DOLE. We do not need any studies. We need action.

Dr. ROARK. Sir?

Senator DOLE. We have got too many studies.

Dr. ROARK. While this study was being conducted, we would propose that all fiscal sanctions be held in abeyance. Following the study, then it should be very carefully reviewed and uniform quality control measures adopted. If we are going to sanction based on errors, we need to have a valid measure.

Senator DOLE. Let us move on. Mr. Hill.

STATEMENT OF CLAUDE E. HILL, DEPUTY INVESTIGATOR GENERAL, TEXAS DEPARTMENT OF HUMAN RESOURCES, AUSTIN, TEX.

Mr. HILL. Thank you, Senator Dole. I am Claude E. Hill, the deputy investigator general for the Texas Department of Human Resources.[1]

Senator, our division in the State of Texas employs 164 individuals. The reason why our fraud control program in Texas is as successful as it is, we enjoy the total support of our human resources board, the commissioner, and the executive staff.

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[1] See p. 77 for a letter from Gordon S. Hardy, investigator general, Texas Department of Human Resources with attached material.

Our responsibility within the department is primarily the investigation of all criminal offenses involved in welfare benefits within our State. We work primarily from a referral system. The attempt to automate our system and enhance effectiveness, we have five major projects going within our State right now.

One of these, the first of these is automated case reports. We use a standardized format for all of our investigative staff on a statewide basis, using word processing equipment. This cuts down a significant amount of time in the report and improves the speed and accuracy of the report.

We are also using telephone disqualification hearings, whereas investigators can conduct hearings in local offices without any travel costs associated with going out to the field.

We are also in the problem of dual ATP cases in our State, which is the authority to purchase food stamps. These cases are oftentimes smaller dollar amounts. We use a system that is located in an office with two people, whereas the investigator screens ATP signatures, they are sent to a handwriting expert who gives us a written opinion. The case is again done on automated word processing equipment and sent to a hearing officer, and done by telephone. This enables us with two people to complete about 60 cases per month, which we would otherwise not be able to work.

We are also making real good use of the administrative disqualification hearings waiver. The waiver is used in about 40 percent of our cases. It saves a large amount of dollars in travel costs.

Of course, Texas has, in the last fiscal year, used prosecutor's funding in a big way. This is, again, with USDA-financed funding procedures. In our State, prosecutors are paid $250 for each uncontested guilty plea that is handled through a court and $600 for any trial. Just an example of the results, and these are not all inclusive of the funding because there are some other things included, but in the year 1982, we had 783 convictions and there were 1,719 court convictions in fiscal year 1983.

Senator DOLE. Were they major cases? If you are going to pay that much, what are you going after?

Mr. HILL. Yes, sir, they are big dollar amount cases. They are cases that are screened so that we are not paying $250 for prosecuting a $75 case. We are making every use of the administrative disqualification hearing. In fact, we conducted 4,245 in addition to all the court cases.

We have an automated restitution system that tracks the payments that are owed to our State. We also have, as of October 1, a pilot project in Harris County in which we are using a commercial collection agency, which pursues cases that are no longer active on our system, or otherwise not being handled by the criminal justice system.

Our State also does do food stamp trafficking operations.

We are also involved in mail issuance. We have extremely low losses in mail issuance. The fact of the matter is from July through September, Texas issued almost $5 million through the mail and only had replaced losses of $23,000.

We have a significant recommendation to make that we feel is real significant to our operations. And while I make it, I would also like to point out to you and the committee that our State was

awarded by Secretary Block earlier this year a national award for using enhanced funding—for the best use of enhanced funding of USDA money. We certainly appreciate the support that we get in this area.

Our recommendation is, and we bring three recommendations to the committee this morning, Senator, the first one being we have asked for, and would like to see a waiver to be issued since our State has strong deferred adjudication laws, where 50 percent of the money is recovered behind those cases would be retained rather than it being handled as an out-of-court settlement and only 25 percent earned. I would suggest that our statute in Texas requires three things that most adjudication statutes do not. It requires a plea of nolo contendre before the court or a plea of guilty. Evidence is presented to a judge. It is not in the district attorney's office. A finding by the court that the findings substantiate guilt. Up until that point the judge has three or four options available to him. He can go ahead and place him on deferred adjudication; he can accept his guilty plea, place him on probation, or accept his guilty plea and put him in the penitentiary. We feel that this is a strong enough statute.

Again I would like to say Texas appreciates the opportunity to come before you. Thank you.

Senator DOLE. What we will do, your statement will be made part of the record. The staff will go through and look at the recommendations and see what we can glean from that when we do anything. I think, as already pointed out, we need a little period of stability. We cannot keep changing the food stamp program every time we have a hearing. If there are some areas that would help you in administration and at the same time tighten up the program as far as fraud, abuse, waste, and duplication, to me that is administrative, that ought to be changed. Playing around with benefits every 6 months—if we can find some ways to save some money without getting into benefits, it would really be helpful.

Carla.

STATEMENT OF CARLA NAKATA, DIRECTOR OF FOOD PROGRAMS, KANSAS DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES, TOPEKA, KANS.

Ms. NAKATA. Senator Dole, I appreciate the opportunity to appear before you today to talk about the error reduction methods as they are implemented in Kansas.[1]

In Kansas, 1 in 20 people receive food stamps as a part of 52,500 households.

Kansas has requested and has been approved for 75 percent Federal matching for its fraud program in the State. This funding has enabled us to maintain a separate food stamp administrative fraud hearing system. Most frauds in the State are processed through the administrative fraud system, and we have found this system to be efficient and equitable.

For intentional program violation and frauds, the number of claims filed each month in Kansas has doubled since 1981. While

[1] See p. 87 for the prepared statement of Ms. Nakata.

collections have increased by 400 percent at the same time, annual intentional program violation collection amounts to about $50,000 a year for the State. The number of inadvertent household error claims filed each month since 1981 has remained constant. However, during the same time period, the value of claims collected has increased by 65 percent. Currently over $12,000 is collected each month for repayment of inadvertent error claims. Collection action is handled through a manual system administered through demand letters from the State Central Office. Benefit reduction as established in the 1982 act has not yet been implemented in the State for inadvertent household error claims. The manual system that is used for benefit reduction for fraud claims would be too cumbersome due to the number of inadvertent household error claims filed monthly. We are in the process of developing an automated accounts receivable system which will implement the benefit reduction for inadvertent household error claims. However, this system is a complex automated data processing action. The demand for automated data processing systems have increased greatly in the past years due to all the changes in the food stamp program and we have had to set priorities for implementation of projects within the State. The automated accounts receivable system is not required by law or by regulation specifically so it has had to take a priority lower than monthly reporting and retrospective budgeting. We do not expect the automated accounts receivable system to be finished until about April 1985. However, at that time we would expect a great increase in claims collection.

Kansas has automated matching systems with the wage and benefit files of the Kansas Department of Human Resources for all food stamp household heads. For household members not covered through the automated system, manual matches are completed for each certification and recertification.

Although Kansas is considered to have an automated food stamp system, this system was not designed to accept individual information for all household members. This system currently has to be updated in order to complete all of the automated data processing projects required. We are in the process of doing that at this time. When that system is updated, then we should be able to complete automated matches with not only wage and benefit records, but also match for duplication within the State and with other State agencies, as tapes become available to us.

Given time to develop the computer matching potentials available currently, we feel we will have on hand valuable tools to aid in deterring food stamp program abuse.

We appreciate 75 percent matching of administrative funds available for developing automated data processing systems. If, however, 100 percent Federal funding were available for special projects for development of automated data processing systems, it would eliminate the need for States to use existing staff and special data processing implementation projects could be established to expedite the implementation of projects and would frequently result in overall program cost savings, I believe.

The unadjusted food stamp payment error rate in Kansas for the first half of 1983 was 8.9 percent. The figures for the second half of that fiscal year are not in yet, so we are unable to determine at

this time whether or not Kansas will meet the 9-percent target or whether the State will be sanctioned.

The food stamp program is complex and regulations change frequently. An adequate number of trained eligibility staff is essential for error reduction within the State. Kansas, like many other States, has experienced serious fiscal shortfalls in recent years and inadequate funding through any reduction in Federal funds could well mean an increase in errors rather than error reduction within the State.

In Kansas most food stamps are issued by direct mail. Food stamps are mailed between the 1st and the 15th of the month, with the largest allotments mailed first. This allows most households to know when to expect their food stamps to arrive and reduces the risk of potential postal theft that would be evident if all the stamps were mailed in one area at a time.

Certified mail is used as an alternate issuance system for large dollar allotments and for all stamp issuances valued at $76 or more that are mailed into specified high-loss areas.

Mail loss in the State has decreased proportionately to the use of certified mail. In 1982, certified mail was increased 78 percent and mail loss, consequently, was reduced by 64 percent.

I would like to touch briefly on monthly reporting and retrospective budgeting.

Senator DOLE. If it is the same as everybody else, make it very brief.

Ms. NAKATA. Very brief.

Senator DOLE. If it is a repeat, we do not need that.

Ms. NAKATA. We continue to believe that monthly reporting and retrospective budgeting may well be a way of reducing error in the food stamp program. However, an analysis of the implementation indicates this system will require additional staff and will result in further increases in administrative costs.

With inadequate staff to handle the increased activity and paperwork, we feel it may not be possible to reduce errors from this system.

In summary, I believe that the Food Stamp Act, as amended, has allowed States to take action to curb fraud, waste, and abuse. If States are given the time and the money to implement and utilize the existing provisions of this act, these savings will continue and will increase. In the past 2 years, major program revisions have been made almost monthly. Eligibility staff requires time to become familiar with the current program and the State requires time to utilize and implement all the provisions that are currently available. We would suggest that program integrity might be well served if there are no major revisions in the Food Stamp Act this year.

Thank you.

Senator DOLE. Thank you.

Mr. Cohen.

STATEMENT OF WALTER COHEN, SECRETARY, PENNSYLVANIA DEPARTMENT OF PUBLIC WELFARE, ACCOMPANIED BY PATRICIA JACOBS, DEPUTY SECRETARY FOR INCOME MAINTENANCE, HARRISBURG, PA.

Mr. COHEN. Thank you, Senator Dole.

I am Walter Cohen, secretary of public welfare for the Commonwealth of Pennsylvania.[1] What I would like to do briefly is summarize some of our activity on prosecution of food stamp fraud and our method of delivering the food stamps, and make a few comments on what we have seen through the approach we have taken, and then through a new pilot program that we are starting up next year.

We use in Pennsylvania nine counties which are the counties with the highest number of food stamp recipients. It covers about 70 percent, including the city of Philadelphia. We use a direct delivery system. We also use that for our cash benefits. It is a system that works through a number of local banks and some special locations that exist just for the purpose of delivering food stamps or cash benefits.

In the year before, which was I guess 1981, when we did not use direct delivery, but relied on mail, we were placing in Philadelphia County alone about 2,800 food stamp benefits per month. By December of last year, less than 1 year ago, with 73 percent of the food stamp households in Philadelphia included in our direct delivery system, we were replacing only 128 checks during that month. Our estimate is that this system has resulted in a savings of $4.4 million during the year 1982, and with the possible expansion beyond the 450,000 households now, we would see even greater saving. But what we are most excited about in this whole area is the opportunity with Planning Research Corp. and the Department of Agriculture to proceed on the development of a pilot program that will essentially—I guess the quickest way to describe it is to issue what is very similar to a bank card for food stamp and cash benefits. The individual who is eligible will receive the card, will be able to go into whatever retailers are participating and put the card in the machine and the machine will subtract out——

Senator DOLE. Is that like Michigan?

Mr. HALL. Not quite. We still give food stamps, but what he is saying is one step beyond. We have talked about that.

Senator DOLE. Go ahead. I just wanted to be sure. It is a little more advanced I guess.

Mr. COHEN. I think it is one step further. Of course, when you take one step further, you hope you are not taking a step off a cliff.

I am myself optimistic, but somewhat cautious about it because one of the issues we have not resolved yet is the question of having each individual have a three- or four-digit number like most of the bank card systems, at least that I am familiar with, and if that is the case, what is the experience on remembering those numbers. If you do not remember the number, then what happens at the checkout counter when somebody cannot pay because they do not have their number, or their card is not processing, or the machine is

[1] See. p. 93 for the prepared statement of Mr. Cohen.

down, or something like that. I mention it because I think the experimentation that we are doing there that we would expect would be applicable elsewhere, and, of course, we would hope would be successful, indicates the kinds of trouble one can get into when you are at the same time looking over your shoulder the issue of what is this going to do to your error rate, what is this going to do in terms of the money you might lose by experimenting with a new system that might, once all the bugs are out, be a very successful and a very appropriate way to proceed. Under the current method of operation, I think that we end up facing the real possibility of losing Federal funds perhaps in even greater amounts than the money we are getting in order to run the program, if we do that on a statewide basis.

In our fraud prosecutions with, again, the 75-percent funding that we have also been able to get, we have greatly increased the food stamp fraud investigative effort from 513 cases in 1980–81, amounting to $331,000; 3,400 cases in 1982–83, with a dollar value of 1.9 million. Either of those figures I think will certainly be higher this year, and should be higher. A comparable growth shown not just in the investigative effort, but also in the prosecution results by the development of a specialized welfare-fraud investigation unit that we through our efforts and the Department of Agriculture have worked out with the office of the district attorney of Philadelphia, where, of course, the majority of the food stamp losses, and errors, and problems have occurred.

I think that the thrust of my comments is again in the direction of my colleague from Mississippi to suggest over the long term that we look at the development of uniform standards, uniform approaches in food stamp, and the medical assistance, and the AFDC areas, because what we face and what our several thousand income-maintenance workers face around the Commonwealth is a question of changing regulations, conflicting regulations, attempting as best they can to develop their understanding of some of these issues for the purpose of trying to cut down to the appropriate error rate in a very complex maze of problems where that is not easy to do and where any attempted experimentation in order to do it can be—can result in fiscal sanctions under the current system that can be very harmful.

Senator DOLE. Thank you very much. We would be very pleased—I do not want to go through another study. We study everything around here for years. We happen to have jurisdiction in another committee where I am chairman, the Finance Committee, of medicaid and AFDC. If there were something to be recommended now, surely you have had enough time to work on it, this group could make the study probably in 10 minutes.

Mr. Cubine.

STATEMENT OF JOHN CUBINE, COMMISSIONER OF SOCIAL INSURANCE, KENTUCKY CABINET FOR HUMAN RESOURCES, FRANKFORT, KY.

Mr. CUBINE. Thank you, Mr. Chairman.

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I would like to reiterate many of the statements made by Mr. Hall and Mr. Roark, I will not go into those, but reiterate those statements.

I have provided the committee three documents, one, a prepared statement of my remarks, a handout on the impact of the various Federal changes over the last several years and the impact they have had in Kentucky, and also an overview of what I would like to spend most of my remarks on, which is a new system in Kentucky which we are extremely proud of.[1]

I would like to mention that in Kentucky about 9 percent of all retail food sales are food stamp sales. One out of six people in the State of Kentucky are on food stamps, and about 23 percent of our population is under 125 percent of the poverty level. So the food stamp program is a major economic social welfare program in Kentucky.

What I would like to spend most of the time on is what we are calling the Kentucky automated certification issuance system. We are extremely proud of it, and actually feel that it certainly is the model or the prototype of what could, in fact, revolutionize the food stamp program. It actually has two components: One is what we call the eligibility or certification subsystem, the other is the issuance system.

The eligibility system is scheduled to come up on December 1 of this year. We put the bid out on contract last December. We awarded it in March. We were delayed 1 month by the national telephone strike in terms of network. We are scheduled to come up fully implemented in all 120 counties. Each worker will have a terminal on their desk. All parts of eligibility will be automated. There will be no forms in the program at all. Everything will be totally online. The client will be interviewed, responses keyed in while the client is still sitting at the desk. All the matches that Congress has looked at and USDA over the last several years will happen automatically.

If we ask the question: "Do you have an automobile?" And the client says: "No", at the same time we will be checking motor vehicle registration, and coming back and saying if there is an automobile. We will be checking wage files on earnings. So the entire process will be automated online. We feel that currently our ineligibility and overpayment rate in Kentucky is about 6.8 percent. We feel realistically that this can take 2 or 3 full percentage points off the payment error rate. Almost all the agency related errors, all the manual material, all the handbooks will all be automated online. There will be no more cumbersome, almost telephone-size-book manuals, which the workers basically have to thumb through to find policy. It is a totally automated system.

And, although eligibility is clearly where the majority of the dollars are, that is where the process starts. The most visible part of the system is issuance. The issuance system basically picks up or is a variation of what Pennsylvania has discussed. Our contract for both components is a single contract, fixed price, 3 years, two 1-year options, is with electronic data systems.

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[1] See p. 99 for the prepared statement and additional material supplied by Mr. Cubine.

Their system will provide an electronic telephone instrument at almost every retailer in Kentucky. The only retailers who would not have such an instrument would be the very small mom and pop's where it is just not cost effective to do that type of system. Coupons will be personalized. We will be using a similar type bank card. They will be mailed to the recipient. That will allow us to stay on direct-mail issuance, which in Kentucky for a number of rural counties, is a major advantage.

The client will take those coupons the same way they purchase now. By being personalized, we think that is, one, going to reduce theft, trafficking and all the illegal uses that go on with the program. When the vendor takes the stamps, he will key them into the device at the check lane. There will be no more flow of coupons through the banking system. The coupons will be credited to the grocer's account the next day through electronic fund transfer.

Under this system, about 70 percent of the administrative cost in Kentucky in administering the food stamp program is personnel; 40 percent of that personnel time, most of it being professional caseworker is clerical related. This system is actually going to let us decrease staff in the food stamp program at a time when the caseload is going up by 30 percent. So this system over a 3-year period, including the devices at the retailer, the printing of the coupons, everything that goes with it would, in fact, not cost USDA any more money, this is a 50–50 project, no enhanced funding involved. It will not even cost more money—in fact, it will save them money during the course of the program. This program will cost less than our current program total to run than what we are currently spending.

We do have one hangup at this point on the issuance system. It has been 7 months since date of award in Kentucky. We still have not gotten approval to proceed with the issuance component. Where we are hung up right now with USDA, and have been trying to resolve it, is on the liability. What Kentucky is asking for is that the liability for the total system, and for the first time a State is going to take responsibility for liability at the redemption site, at the retailer site. Kentucky has agreed to do that. We are asking for the same liability tolerance level that the other States have in mail losses, 0.5 of 1 percent. We are asking that that be guaranteed for at least 9 months of the project, and subject to reevaluation after that. We feel that is the only, at this point, hurdle or roadblock to fully implementing the system. Full implementation will occur in Kentucky, all 120 counties, 6,500 retailers, 8 months from date of award. So we feel very good that it is not a system—and so often we get involved in talking years off. In addition to that, it is a no-development, fixed-price contract. There is no payment made to the contractor until the system is fully operational. So we are not paying for something that may never work. If it does not work, the State of Kentucky and the U.S. Department of Agriculture never pays a cent, and we are extremely proud of it.

Senator DOLE. Thank you Mr. Cubine. Next is Mr. Krauskopf.[1]

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[1] See p. 127 for the prepared statement of Mr. Krauskopf.

STATEMENT OF JAMES A. KRAUSKOPF, COMMISSIONER, NEW YORK CITY HUMAN RESOURCES ADMINISTRATION, NEW YORK, N.Y.

Mr. KRAUSKOPF. Mr. Chairman, I appreciate the opportunity to discuss the substantial improvements in the administration of the food stamp program in New York City. These efforts which we have devoted major attention to over the past few years have substantially reduced errors and the vulnerability to fraud in the program.

One of the most important developments that we have underway is the successful pilot testing of electronic payment fund transfer system. We have been operating this system for close to 2 years for 10,000 households on the west side of Manhattan. The system involves a photo ID card which is magnetically encoded, is brought into an outlet bank or check-cashing outlet that is participating in the program on the day or the day after the benefits are due. The recipient will get both the cash benefits due on public assistance, if they are a public assistance recipient, and the food stamp coupons. The system eliminates the use of the postal system and, as a result, eliminates much of the theft, loss and fraud that has occurred in New York City through the mail system. I will not go into the details of the system. There is more on it in my testimony, but it has been highly successful during its pilot operation for clients, for the administration of the program and for the Federal, State, and city government funding sources. We estimate that when the system is implemented citywide, which we hope we will get State approval shortly, it will save about $7.4 million a year in program and administrative costs. Those savings will be divided among the funding agencies for the program. We have also done surveys of the clients. They favor the system over the current paper system in which checks and authorizations to participate are mailed out. It is clearly a better one for us to administer. So it is one of these unique opportunities that benefits everyone all the way around in administering an entitlement program, and we look forward to moving ahead with citywide implementation.

Prior to the EPFT pilot, as we call it, we had implemented in October 1980 a rapid access reconciliation system that has almost eliminated one of the major sources of fraud in our program, duplicate assistance fraud. People would tell us they had not received their original ATP and get a second one. Under the rules we were required to issue duplicates, and at one point we had as many as 12,500 duplicates going out a month. We have virtually eliminated that problem. We now have, with cooperation of the bank that works on the program with us, a rapid access system that allows us immediately to reconcile transacted ATP's and to have the information available at the food stamp sites and welfare offices so that if a person attempts to request a replacement, we can tell whether or not the original was cashed and by whom. As I say, that has virtually cut down that source of fraud.

We have also been paying attention to the kind of fraud that might have occurred through the redemption outlets, the vendors who participated in the program. We have a regular ongoing pro-

gram of audits in addition to the prosecutions which have occurred in the past with several vendors.

Senator DOLE. How much is there of that type of fraud?

Mr. KRAUSKOPF. I think at this point it is greatly minimized. We had a problem a few years ago. I think now I can tell you the results of our audits. We go out on an unannounced basis to about 100 redemption outlets a month and our audits show an error rate of no more than 1 percent in the transactions, that is the signed ATP's, the reconciliation numbers being in place where they are supposed to be. We are also, on a random basis, pulling redeemed ATP's from our own files after they come back. We are auditing about 500 of those, and we are also finding an error rate that is extremely low, around the 1-percent range. So I think we have cut back on that kind of fraud. I am not saying there is not some fraud somewhere, but I think that we are catching it. We also have an active bureau of client fraud that is investigating any kind of suspicious cases that we come up against.

With regard to error rate reduction, which is a related, but, of course, separate problem, we have reduced the error rate which was extremely high at one point in New York City, over 25 percent, now down to the 11½-percent range, and we expect we will be able to reduce it further. The things that have worked for us have been extensive computer matches with such things as the wage reporting system of the State which indicates income, social security records, unemployment insurance and about 17 other automated files that we match with on a regular basis. We also have what we call an error prone checklist for workers to look for certain kinds of things that are likely to cause errors in the program, and we are catching things that way. We have audits of new acceptances and recertified cases to make sure that the workers are performing appropriately on those.

There are some things that could be done that I think would help improve the administration of the program further. I share the general sentiment here that I sense is yours as well as my colleagues appearing this morning, and that is don't make further major changes in the program. We have suffered enough through implementing complicated administrative and regulatory changes.

One thing that I think would help us would be if we could have categorical eligibility for public assistance recipients who live in mixed households; that is, where we have AFDC recipients who are living in a household where there are nonwelfare recipients. If we could have a system of categorical eligibility for those welfare recipients, then permit the nonwelfare recipients to apply separately as a nonpublic assistance household for food stamps, that would be very helpful to us. We find a fairly significant percentage of our errors come out of those mixed household cases. It is very difficult to get all of the data on the file involving all the members of those households. And that would be an important reform.

I also share the sentiments around the table about monthly reporting. I will not go on at any length about it. We think that it ought to be a State option and, in our case, we think we are doing other things that catch much of the same kinds of information that is caught by monthly reporting. The administrative costs probably exceed the savings that we get from it, or at least there is a ques-

tion whether it is worth the tremendous administrative effort that is required. We would like it to be a State option, and we would work out with our State whether or not we would want to continue. We probably would not.

The only other point that I would like to make is that we are obviously very concerned in the city about the deep benefit cuts that have occurred in the program over the last few years, 37,000 people were cut from the program all together, and virtually our entire caseload suffered benefit reductions as a result of the changes that began in 1981. We would hope that some of those benefits could be restored or, certainly, if they could not be restored, at least there would be no further actions taken by Congress that would, in effect, cause benefit reduction, even those that might be done in the name of administrative simplification. We are seeing great evidence of hunger reappearing in the city in the form of people going to soup kitchens, pantries, and church-run programs and the like. The food stamp program was one of the important ways that hunger was virtually eliminated in this country, and now it is regrettable to see it coming back again.

We also think it is important to restore some form of outreach to the food stamp program because there are many people, some of the working poor, and especially the elderly, who are not going to be reached by the program unless there is a concerted effort to tell them about it and provide information.

We do have a local effort, with State approval, called training, education and nutrition, which does provide some information and helps to get the word out. But we would like to see the restoration of federally supported outreach.

Thank you very much.

Senator DOLE. You have indicated there is an increase in hunger. I do not know whether that is just your view or not. Is the State doing anything to move into those areas?

Mr. KRAUSKOPF. Well, it is subjective in the sense that we cannot count it; but you can see the number of people who are going to soup kitchens and pantries and the like, and there are very definite increases. The State has worked with us on the training, education, and nutrition program I mentioned, which is the effort to get information out about food stamps, particularly to the elderly and the working poor. We have also been working with the State on the distribution of Federal surplus foods. We began last week with the distribution of 345,000 pounds of butter in the city, and we will begin in November with regular distribution of other surplus foods, cheese, milk and the like.

Senator DOLE. States are great about complaining about Federal programs not being large enough, but they are not doing anything on their own except distributing Federal commodities. They all talk about their budgets. You are not nearly in the shape that we are in. We are hanging on by our fingernails with a $250 billion a year deficit. So we just cannot fatten up the program because States do not want to participate.

Mr. KRAUSKOPF. Could I comment, Mr. Chairman?

Senator DOLE. Let me go ahead and get John Taber and then we will have a little discussion. We are trying to find ways to save

money, not to spend more, if somebody misunderstands the purpose of this hearing. We can figure out plenty of ways to spend it.

STATEMENT OF JOHN TABER, ASSOCIATE DIRECTOR, WASHINGTON OFFICE, ON BEHALF OF DR. ROBERT L. SMITH, COMMISSIONER, ALASKA DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Mr. TABER. Mr. Chairman, one advantage to following so many distinguished speakers is that many key points of our statement have already been made. I will not repeat those, except to stress those that are of interest to the State of Alaska.[1]

As you know, Mr. Chairman, from the time you have spent in Alaska, our State does offer some extraordinary challenges in the administration of programs that address individual household needs. We are acutely aware of the requirements of Federal programs, particularly that they require or presume ready access to clients, which is not always possible. In our rural areas it is not always possible.

Those who are familiar with our State are often astonished to learn that one-fourth of our food stamp recipients live in isolated villages of 25 to 2,500 inhabitants, and that more than 200 of these are not served by roads, and depend upon weekly or less frequent mail service, or plane service.

Our payment errors have been among the worst in the Nation. We have been working very hard to try to deal with that problem, which has been aggravated by the phenomenal population growth of the late 1970's and the 1980's. It has been further aggravated by our boom or bust economy, to the point that we have seen as much as a 100-percent increase in caseload within an 18-month period.

Confronted with this environment, I would have to say that Alaska's food stamp program managers view with great concern the fiscal sanctions imposed by the Omnibus Budget Reconciliation Act of 1982.

We are very pleased to report that we have managed to cut our State-computed payment error rate in half in the annual period just ending, September 30, and that we are well below our target error rate for that period. We do, however, see insurmountable obstacles to achieving and maintaining those future error levels, as mandated by Federal statute, given the current program design.

We attribute the success we have achieved to our aggressive implementation of mandatory monthly reporting statewide. We share the concerns of the other people around the table about the mandatory aspect of that.

Senator DOLE. We would rather not do it, but it is working.

Mr. TABER. It is working well in certain areas, and not working well in others. So we would like the flexibility——

Senator DOLE. If you make it optional, nobody would use it. That is the problem.

Mr. TABER. I think that we would probably continue to use it in our urban areas and less in our rural areas.

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[1] See p. 135 for the prepared statement of Mr. Taber.

Senator DOLE. Probably it will work out in some formula like that.

Mr. TABER. Right.

We also attribute our success to a 26.5-percent increase in staffing for these public assistance programs just within the last year, and to a number of program improvements, including home visit verifications of eligibility, a very well-publicized and intensive commitment to prosecution of fraud cases, and certainly to the sincere and dedicated efforts on the part of our staff, who are very concerned and have been very concerned about the State error rate levels.

Within a very short time, our efforts will receive an additional major assist from an automated eligibility information system, similar to some of the systems that have been described this morning. And we are excited about the possibility that that offers for reducing the errors, particularly on the agency error side, where computations and program features are a function of the many, many frequent regulation changes and other problems that we are constantly dealing with have created a relatively high error level.

We will be seeing the benefits of that in the next month or so. And they will, of course, compliment the other gains that we have already made.

But the big improvements have come, however, primarily in our urban areas. And over the long haul there will be constant error pressure from our rural areas so long as we have to deal with unreliable mail service, different and confusing treatment of income and resources between Federal programs, which speaks to the concern for our uniform eligibility standards among the various Federal programs, a client population that does not speak English, and frequently has no linguistic or cultural equivalents for such terms as "verification," and a forced dependence upon village agents to translate and communicate to clients eligibility concepts that even they frequently misunderstand, concepts of a household that do not fit the Federal mold because of constantly shifting people who are in the household during the various months of the year, food costs that lead people to try some pretty desperate measures, and in our rural areas a real problem finding people with the background.

Senator DOLE. John, why do you not now just come up and join this group. We have the Deputy Inspector General here. Let us hear from the administration. You have had a chance to hear these witnesses. I will just say again we are trying to find ways to save money in administering the program, so if there is benefit change needed we do not have to add additional funds. If we eliminate everything that may be inconvenient, we are not going to save much money.

STATEMENT OF HON. JOHN BODE, DEPUTY ASSISTANT SECRETARY, FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE

Mr. BODE. Yes, sir.

I have a short statement, but I will summarize it, nonetheless, in the interest of time. I will just say that we have had 3 changes in the law, and that has made some 90 different changes in the pro-

gram.[1] So, I think there is good basis for the points that have been made about the 20 different regulations that have required implementation on the part of the States. These gentlemen and lady have all gone through a lot in getting these changes into place, and they have done a good job. As a result, we have got a tighter program and better targeted program now. Nonetheless, with annual overpayments still reaching billion we still have a serious problem and a ways to go.

As the effects of the 1981 and 1982 statutory changes are felt, we expect to see a continued decline in error rates, as some of the other testimony supports. The statutory reforms, such as monthly reporting and wage matching, we do feel is an improvement and should not be changed. Also, our regulatory reforms have given States an impressive array of management tools to reduce erroneous issuances.

In short, implementation is advancing well.

I will just shift to monthly reporting and retrospective budgeting to say that certainly there is evidence that shows when monthly reporting and retrospective budgeting are taken as a universal approach, there are problems with it. We are well aware of that evidence and that is why we have indicated to the States that we are eager to have their waiver requests. We have granted waivers to over 28 States. Waivers are based on a cost-benefit analysis basis. So we are telling the States if it is not cost effective, show us that it is not, and we will waive the requirement.

Senator DOLE. How many States have implemented it?

Mr. BODE. We have had implementation in 18 States. A number of other States are coming online. I believe only four States have indicated that they will have difficulty meeting the January 1 implementation deadline. But I believe those are just a little behind schedule.

Senator DOLE. That, obviously, is a hot button here with this group. It ought to be—I do not think it is going to be extended again unless there is some flat extension, or some way to modify the concerns expressed by some.

Mr. BODE. Sir, my point is that the points which have been made about general problems with universal MRRB are valid. That is why, with your good help in allowing the Department to take a waiver approach, we are responding more flexibly. We are taking a more targeted approach to MRRB so we will have it where it is needed and not waste time and valuable resources where it is not.

These witnesses, of course, would prefer to have exclusive discretion in deciding where it is needed and where it is not. The Department feels strongly that it should reserve a strong role in making that decision, once again going back to what underlies so much of what we do in these programs, being the funding, the funding being 100 percent Federal, and administrative costs being, generally speaking, 50–50.

May I ask Virgil Conrad to join me? He is the Deputy Administrator of Family Nutrition Programs.

Sir, if I could also add one other thing: We are very pleased with the progress that is being made in alternative issuance systems. I

[1] See p. 139 for the prepared statement of Mr. Bode.

think that we are at a period in the food stamp program when we are seeing some rapid developments. We are taking advantage of some new technologies, and I think—well, there are some tensions in that process—it is going to pay off for us in some big ways in the long run for recipients as well as taxpayers.

Senator DOLE. Let us hear from the Deputy Inspector General now and then we can, not have a free for all, but maybe a little dialogue. I think it might be better. Generally witnesses testify and leave, but it is our problem. It is not his problem or your problem. It is our problem. We want to make the program work, and we want it to be credible. We do not want to punish anybody in the process, particularly the recipients. I think somebody mentioned outreach. I hope that while you are doing all these other things you may be bringing into the program people who are not aware of it in some remote area or somewhat intimidated by the process. But I understand, Inspector General, that none of the 15 States that you have studied fully complied with wage matching, is that correct?

Mr. GABRIEL. Yes, sir. That is one of the problems that we identified and we have a draft report. We are awaiting comments. Which is why we have not submitted it for the record today. But we plan to provide you with two reports, one that we have on enhanced funding and one on the computer matching. We are about 30 days from getting comments and putting them into final form.

Senator DOLE. What I would suggest, you might give us some highlights of what you can. I do not want to upstage what you will be submitting to us in the next 30 days. But any points you can make, having listened to a number of outstanding witnesses——

Mr. GABRIEL. Yes, sir.

Senator DOLE [continuing]. Based on your own investigation.

STATEMENT OF ANTHONY J. GABRIEL, DEPUTY INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE

Mr. GABRIEL. While the witnesses from the various States were speaking, I made note of a few points of their progress that were not in my statement,[1] but certainly they made very good suggestions about stability being needed in the program as far as regulation, and the criteria needed to measure their performance. And they suggested management improvements of their own programs. And, of course, we heard of the retrospective budget. In that respect, it seems they want the flexibility and anytime you institute a control there is always a cost to be measured against a benefit to be derived. I think that is the kind of thing we have to look at with that particular issue.

We heard one gentleman talk about one of the studies where it failed to reduce errors and benefit costs were increased, administrative costs increased by 20 percent. Certainly we are going to be alert to those issues and take a good look at that retrospective budgeting.

Mr. Hill made a few points on an innovative process on telephone disqualification hearings. He also brought up enhanced fund-

[1] See p. 142 for the prepared statement of Mr. Gabriel.

ing. And the witness from Kansas, Carla Nakata, talked about some of the manual collection systems and moving to more innovative automation as far as the receivables and collections.

I want to mention those just as a backdrop and then show how it relates to some of the things that we are addressing which could be beneficial to everybody here with some of our recommendations.

With respect to enhanced funding—I will just summarize—the Food and Nutrition Service provides 75 percent enhanced funding for activities relating to investigation and prosecution of fraud and the establishment and collection of fraud claims.

We made an overall audit review of the Food and Nutrition Service, State and county food stamp control activities and of the contribution of enhanced Federal funding in 10 States. These were Arizona, California, Florida, Illinois, New Jersey, New York, Ohio, Oregon, Texas, and Washington. These States account for 61 percent of the total reimbursement under the 1982 enhanced funding. We concluded that while some advances have been made—I might say tentatively concluded, this is still a draft report—some innovative techniques are being utilized to further the goals of the enhanced funding program. But more needs to be done as many of these witnesses have testified to.

I heard the witnesses from the States recognize and agree that there are areas in need of improvement, and they want to make the program more effective. Some of the examples that we heard today, as well as what we found in our preliminary reports, indicate a growing responsiveness in the attempt to control fraud in the food stamp program. The Food and Nutrition Service has conducted seminars on the subject around the country.

Oregon uses a State income tax intercept to collect claims. Imaginative, highly successful collection techniques, such as these, in our opinion, should receive greater emphasis. Some States, such as Texas and Florida, use prosecution extensively, and the gentleman from Texas described some of them. Another gentleman provided some statistics where he showed that they conducted 1,800 fraud hearings and found 1,600 cases of fraud.

Now, while there has been some progress, we also have identified some of the problems. Some States routinely claim 75 percent of cost for activities that did not qualify for enhanced funding.[1] Usually these costs were for noninvestigative food stamp program activities. In other cases, States allocated costs that were properly chargeable——

Senator DOLE. What do you do when you find that? You do not continue to give them money, do you?

Mr. GABRIEL. We hope that where we find that FNS would establish a claim against the State to recover and stop that practice.

FNS regulations allow only two methods of establishing claims for intentional food stamp fraud violation. These are the administrative hearing and prosecution. Both are expensive and time consuming, and have been only partially effective. Generally administrative hearings were not effective because there were these problems in the process: considerable delays between identification of

[1] See p. 161 for excerpts from the final OIG report, "Effectiveness of the 75 Percent Provision for Fraud Control Activities in the Food Stamp Program."

suspected fraud and the administrative fraud hearing; large backlogs of cases awaiting the hearings; inadequate staffing levels to handle the number of hearings required; costly and time-consuming processes involved in holding hearings; failures in recipients meeting scheduled appearances; and delays in decisionmaking and recipients voluntarily withdrawing from the program; therefore, disqualification becomes an ineffective action.

The prosecution process often does not achieve important objectives, such as program disqualification and adequate restitution, because of the low priority assigned the food stamp fraud cases, delays in the prosecution process, and large backlogs due to the overload of the court system.

Finally, there have been limited efforts to collect food stamp fraud claims. These efforts are further limited by inadequate information and accounting systems which prevent the effective monitoring of disqualifications and collections. One witness here referred to the accounts receivable and the manual systems and how much more effective they will be in collections when they get automated. These are the kinds of problems that we are also noting.

I would like to make just a few comments on wage matching and then end my statement.

None of the 15 State agencies we reviewed were in full compliance with the regulations. They had not completed a wage match which met regulatory requirements, or taken proper followup and corrective action on wage match results. We believe the situation prevails in most States, and that wage matching in 1983 will not reach its potential in reducing improper benefit issuance due to income errors.

The primary reason for noncompliance was that the various State agency ADP systems did not have statewide participation data on file, or proper programing for efficient wage matching. State agencies also cited insufficient staff as a factor in being unable to comply with wage matching.

Mr. Chairman, I have another example of the 4 of 12 States who do not require employers to report wages. I can bring it out now or just leave it in here and supply it for the record.

Senator DOLE. I think just supply it for the record. We will have staff going over all of this material.

[The following information was submitted by Mr. Gabriel:]

We evaluated the FSP wage matching activities in 4 of the 12 States that do not require employers to report wages paid to individual employees for each quarter. Under the current law, these States have no alternative but to wage match with Social Security Administration (SSA) date. Usually this data is not current; therefore, it has limited value in administering food stamp participation. However, some of these States have alternative wage sources available to them that are more current than SSA data, such as State tax records.

FNS recognized that some wage request States had more current earned income data available from various agencies within their States than that which was available from SSA. FNS officials informed us that they had developed and proposed new legislation to allow wage request SAs to use alternative wage sources if that source of data is better than SSA data. We support this proposal and recognize its benefits.[1]

[1] See p. 167 for excerpts from the final OIG report, "Nationwide Audit of the Implementation of Wage Matching, Food and Nutrition Service—Food Stamp Program."

Mr. GABRIEL. I will just make one concluding comment. We believe that more Federal and State oversight and control is needed in the form of stronger regulation and monitoring of State agency compliance if the results Congress intended are to be obtained. The Department will have to take a stronger position in resolving noncompliance by imposing fiscal sanctions against those States who are not in compliance. That concludes my statement.

Senator DOLE. Have you gone into the collection of overissuances?

Mr. GABRIEL. Yes, sir.

Senator DOLE. GAO has indicated that it is not succeeding.

Mr. GABRIEL. There are problems also there. One of the biggest problems is the method of accountability and the systems that are in place. As in any commercial practice, there should be effective controls. Some Government systems for collecting are antiquated, such as followup systems and even getting the receivables on the books and automated and controlled against disqualifications.[1]

Senator DOLE. As I understand, your total report will be finished when, in about 30 days?

Mr. GABRIEL. Yes, sir, two reports are out for comment. As a normal audit process, we consider it draft until we receive the agency's response, and then we have, let us say, a validation of facts and some resolution on the recommendations that we will be making.[2]

Senator DOLE. What I would like to do now just for a few moments is to maybe have a discussion. I am going to have to leave and maybe Senator Melcher, if he has questions, can ask questions.

But I just ask the Department, first of all, either witness of the Department, there have been some concerns expressed about retrospective accounting, if, in fact, they are real or they just do not want to do it, I am not familiar with that, but are there areas of concerns expressed that we can address, knowing it is a Federal program and it is not much incentive for the States to do anything to cut down fraud, waste, and abuse, except their good intentions. There is no Federal matching required, except in the administrative cost area, and it is sort of the tail wagging the dog.

Are you addressing some of the concerns they expressed? Do you think they are valid?

Mr. BODE. Sir, I think we have addressed some of the concerns they expressed. I think you have, too, in providing the Department authority to grant waivers. We have been using those waivers. Of course, we realize that most of the waivers have been granted recently and that also has been a source of some concern on the part of the States, legitimately. But we are granting waivers now for parts of the caseload where MRRB would not be cost effective. So, the necessary steps have been taken.

I would ask Mr. Conrad to elaborate.

Mr. CONRAD. There is one provision in the law I think we could address that would make it compatible with waiver provisions.

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[1] See p. 172 for a reprint of the Digest from the General Accounting Office's report, "Need for Greater Efforts to Recover Costs of Food Stamps Obtained Through Errors or Fraud."

[2] See pp. 161–171 for the reports.

What we do is waive people out of monthly reporting into periodic. In other words, they can report every 3 months, or 4 months, whatever makes the most cost-effective sense.

There is a requirement in the law that if a household is on monthly reporting the State must certify them for 6 months. That makes sense. If they are reporting monthly you do not want to make them come in for recertification on top of this monthly burden. It would seem to me to be a factor to consider that if the Department were to grant waivers, only have of them report periodically, whether that is 3 months or 6 months, whatever the increment of time, that we could call that their certification period, and we would not have to put the clients through another certification activity.

I think that is one provision of the law that we should look at as a way to bring improvement into and make it compatible with the administrative approach that we have taken with the current authority. I think that is one area that I would urge the committee to give consideration to.

Senator DOLE. What about the suggestion of uniformity with AFDC and medicaid and food stamps?

Mr. CONRAD. We have uniformity with the monthly reporting flexibility crossing over authority so that each agency can waive what has been approved. In other words, if the AFDC program uses prospective or retrospective accounting, we can waive and be compatible. I do not think that the compatibleness is an issue in these two programs. There may be some on income, or how we treat disregards, and things like that, but not in monthly reporting.

Mr. BODE. Sir, I might add that we have proposed for AFDC categorical eligibility, as was mentioned by a witness. Our proposal was a little broader than the one he was referring to specifically, but certainly we regard ours to encompass his. We would be most receptive to that sort of approach.

Senator DOLE. We will get to the State people in a second. I assume you monitor all of these good things they are doing in Michigan, Mississippi, Texas, and Kentucky. Is there any Federal input? I mean do you have any—do you assist in the development of any of these measures or programs or whatever is going on?

Mr. CONRAD. Yes, sir, in two ways.

Senator DOLE. What I am saying, are we going to wait until 50 systems develop in 50 different States, or is there going to be a uniform program that will help us better administer the program?

Mr. CONRAD. We do two things in that area. No. 1, the project in Kentucky and the one referenced in Pennsylvania, of course, are under our demonstration authority, and we will be able to bring back to Congress a uniform approach once we test the ideas.

Second, to avoid—in the spirit of your question—to avoid each State having to invent its own wheel, this past year we have taken a very aggressive communication responsibility, and quarterly we have sent out what we call a State-to-State summary of solutions that other States have developed and we have developed a very comprehensive document of about 100 pages describing all of these techniques that you have heard reported here. And, last, we have financed some limited funds 100-percent travel, so one State can go to another State to learn these innovative techniques so they can

bring them back and put them in place in their State. So, we are trying through those mechanisms to improve the administration of the transfer of knowledge from one State to another. Second, we are overseeing these major demonstrations so we can bring back to Congress uniform approaches in terms of solutions from a national policy level.

Senator DOLE. I think there has been a lot of progress in the area of error rate, right?

Mr. CONRAD. Yes, sir, it is continuing to come down, and these techniques like wage matching, monthly reporting, and all the various approaches that the States are taking, like home visits that was referenced in Alaska, and other States are taking these kinds of approaches. We see the error rates coming down. I think the incentives that are provided with the potential for States participating in the financial liability has acted as a catalyst to enable the managers to more aggressively pursue the management of this program. I think that is part of the system. I think the enhanced funding that we have provided in fraud is helpful.

Senator DOLE. Is there some merit to the suggestion made that maybe in some exceptional cases you would want to have 100 percent in fraud funding that Carla raised?

Ms. NAKATA. Data processing.

Senator DOLE. Data processing.

Mr. BODE. With respect to fraud funding, of course, we provide 75 percent of funding on investigations and allow a retention of 50 percent of the moneys actually acquired. So, we feel there is a good incentive for that.

Senator DOLE. I do not know who wants to comment, but are there any other questions? We have everybody together right now if there are any areas that have been on your mind that any of the State people would like to raise.

Dr. Roark, you addressed the retrospective accounting at some length. Is the USDA right or wrong? You do not like it and we do not like to spend all that money either, but we do.

Dr. ROARK. Mr. Chairman, it is not a matter of investing some State resources as such. In the States, so far as administrative activity is concerned, it is 50–50.

Senator DOLE. How much does that cost the State of Mississippi?

Dr. ROARK. To implement monthly reporting?

Senator DOLE. Yes.

Dr. ROARK. It would cost the State $3.5 million.

Senator DOLE. A month?

Dr. ROARK. No; a year. And, Senator, I might tell you I had to appear before our State legislature to get State funds to carry out all of our programs. One of the questions they asked me was: "You show us how this expenditure of State funds will be cost effective and then we will listen to you." I could not show it, honestly.

Senator DOLE. Maybe they should have called somebody down from the Federal Government to show them. They have got the wrong people down there. They do not want to spend any money; they want us to spend all the money. It is the same in my State. Governors meet and they put out resolutions to bring down the deficit and they all come running in and want more money.

Dr. ROARK. May I say just one other thing concerning this monthly reporting and retrospective budgeting. I do not know exactly when the results of the Illinois demonstration project in food stamps will be made public. It has not yet been published, but that figure seems to point that it increased benefits, 8 percent, and cost administratively, 20 percent. You know, the mathematics I learned says that is not cost effective, either from the standpoint of the recipient——

Senator DOLE. Do you agree with that? You might as well get it out here on the table.

Mr. CONRAD. I believe, Senator, that we have analyzed that data very carefully. It is because of that data that we very aggressively said to the States that we would entertain waivers so that you could target, because that experience that he is quoting did convincingly establish that it is cost effective for certain households. And it is for that reason that we believe we need to maintain a Federal oversight in the program.

Senator DOLE. Does the waiver take care of it?

Dr. ROARK. Mr. Chairman, I am not sure that the waiver requests that have been discussed here——

Senator DOLE. They said they had been slow on granting them.

Dr. ROARK. Yes, sir; they granted what they call interim approval through the middle of October, and they sent a one-page sheet that would require many weeks of work trying to justify the waiver, as such, and it is to come back in to FNS and, I assume, I do not know this——

Senator DOLE. If you could streamline all that, would that be effective?

Dr. ROARK. It would be helpful. You know, one of the things that concerns me is the apparent attitude, Senator Dole, that the States are not concerned with this. The States are concerned with it. I can assure you they are. Many of the States, whether it is mandatory or not, where it would be cost effective, are going to implement monthly reporting. They are going to do it, and they should, if it is cost effective.

Senator DOLE. Let us try to work out some waiver where it is not so complex or frustrating to the State people who are trying to cooperate. Otherwise, you are going to have to face up to it before the session ends, whether to extend it another 3 months, 6 months. Does anybody else disagree with that? Kentucky, how about you?

Mr. CUBINE. I would just like to add, I think, what we are doing in monthly reporting, and I think again to echo what Don said, I think the indication maybe the States are not concerned because of 100 percent Federal funding, because in Kentucky, you know, our taxpayers are also the Federal taxpayers. When the incentive is there, to give you an example, in medicaid, we implemented a portion of the medicaid population on monthly reporting ourselves as corrective action. The problem that we get into, realizing the Federal deficit and the problem in the States is you get into the areas like AFDC and medicaid in Kentucky, and in almost every State, you notice the AFDC and medicaid error rates are lower than the food stamp error rates, where States had the ability to make the call. In addition to that, in those areas if we see that we can reduce erroneous payments and benefits, we can see some tradeoffs. But

what happens, for example, is when we get caught between budget cycles, we have to implement a Federal requirement, there is no benefit money on the other side to save. What we get into in claims recovery is we are tacking the money on the back end all the time, not on the front end. It is far more expensive to catch it then, where we will all be putting the moneys on the front end of the program in the eligibility, not chasing it on the back end, because 75–25 is fine, but it is 75–25 you did not need to spend if you had caught it up front. But what happens is we have less flexibility in food stamps than any other income-maintenance program. Our error rate in medicaid right now is 1 percent and in AFDC it is 3.2. The food stamp error rate is double.

Senator DOLE. We hope to get it down to 5 here sometime. The administration would like it down to zero.

Mr. CUBINE. I think part of what it may be is sharing in the collection, that is fine. If you assume there is enough money in the system right now, why cannot States participate in some of the savings when we save it on the front end in eligibility. Picking up 5 percent on your administrative funding is nickels and dimes compared to the $11 billion in the program in benefits.

Senator DOLE. I guess the other side of that would be, hopefully, we saved enough on the front end we might be able to address some of the benefits.

Mr. CUBINE. Right.

VOICE. I would add to that, Senator, that we experienced a 50-percent drop in our caseload last year, and that bears on this point. That is where the real dollars are.

Senator DOLE. I think everybody agrees. I do not want to be misinterpreted. We understand you are all concerned about the program as we are. You know there is a lot of pressure on this program. It is not the most popular program around and it is very expensive. Some of us are strong supporters of it notwithstanding the criticism. We want to make certain we have credibility and you have got to help us with that effort so we can go out and tell the people in our States and other States that this program, as far as I am concerned, is the best social program we have had since social security was enacted. We have got to be able to contain it and be able to reinforce it. There are a lot of efforts to do a lot of things to the program that I do not think should be done, reinstate the purchase requirement, a lot of those areas. If we can continue to put the pressure on tightening up administration, the error rates whatever, I think there is a little difference between the food stamp program and medicaid, too. So I think you have got a lot more transactions taking place and a lot more chances for administrative error, as I understand it.

Mr. CUBINE. Well, I would differ with that some because if you talk to the people in HCFA, they are going to tell you their program is more complicated. Everybody thinks theirs is the toughest one to run.

Senator DOLE. That is true. But Pennsylvania is trying some new areas and New York has gotten their error rate down. How much?

Mr. KRAUSKOPF. Down to 11.5 percent.

Senator DOLE. You were up to 25.

Mr. KRAUSKOPF. We were up to 25.

Senator DOLE. And Alaska was the highest in the Nation and yours is down to what?

Mr. TABER. We are down to 12.5.

Senator DOLE. You share that optimism, do you not?

Mr. TABER. Yes, sir.

Senator DOLE. You have made a lot of progress.

Mr. TABER. There has been a lot of progress and I think we have the basic tools in the program made available to us now and to the State.

Senator DOLE. Can you not work out this one pressure point in the area of retrospective accounting, and also there have been a lot of good suggestions that you already may know about, and the committee and I know about. We do need stability in the program. We just cannot have a yo-yo policy here where every 6 months we pass a new law. What did you say 90 changes?

Mr. BODE. Yes, sir.

Mr. CONRAD. We are certainly desirous of working with the States and we have met with them under the auspices of their nice monthly reporting. As my colleagues know here, I have been a commissioner at the State level. We have made a one-page document. That is about as simple as we can get it at the Federal level. When you get it down to one page. We only ask for one page of cost justification, just a regular size page.

Mr. TABER. But the instructions for that add additional——

[Laughter.]

Mr. CONRAD. I think that this is an area that we will continue to work with our State counterparts in, because it is a solution when targeted. You have heard testimony from both sides saying that. The States are saying; "Give us the flexibility to target it and we will make it work for you."

We are saying back to you: "We want to give them that flexibility, but we want to be a partner in looking at their judgment. That is all. It is a partnership."

Senator DOLE. I think some of these people, everybody here has got the best intentions. We are going to have to go vote and I think John wants to ask some questions when we come back, Senator Melcher. I may not be coming back because I have something else to do. But I think we have made some headway. I know you discuss this all the time, but some of us have our neck out on this program, and we want it to work. We can make it work better.

Does anybody else have any—Mr. Hall.

Mr. HALL. Senator I wanted to say something about States funds for emergency programs. The State of Michigan has put $4 million in in the last 2 fiscal years for emergency programs and we appreciate the Federal support that we have gotten. In addition to that——

Senator DOLE. This is distribution?

Mr. HALL. No, not distribution.

Senator DOLE. Just the program.

Mr. HALL. Feeding and sheltering people in some of our major urban areas. We have put in $4 million in State funds without any Federal incentive.

Senator DOLE. Well, I think that is good. I think the soup kitchens and the other things, I think that is a good supplement. I am

glad the churches and private groups are getting involved in this problem of hunger, nutrition, malnutrition, whatever. I never did feel it the sole role of the Federal Government to address every concern. I have visited some of the soup kitchens and some of the food banks and they are very effective. I hope that we can continue some assistance through surplus commodities, but I think the States should have some responsibility, and I assume other States do the same thing, distribution or outright participation.

Mr. COHEN. Senator, we in Pennsylvania just, in fact, announced today an $8 million State, total State food bank program for the coming winter.

Senator DOLE. Senator Melcher, do you want to try to do it now or do you want to come back?

Senator MELCHER. I will come back, Mr. Chairman. I do have some questions for the Department.

Senator DOLE. We will run over and vote and Senator Melcher will conclude the hearing. I will leave you hanging by your ears.

[A short recess was taken.]

Senator MELCHER. The subcommittee will come to order again. Chairman Dole will not be able to return, so I will conclude the hearing.

Mr. Bode, the retailers across the country are being assessed a fee by some banks for redeeming food stamps. What is the Department's position on this point?

Mr. BODE. Sir, we have met with leaders of the retail grocers, the Secretary met with them, and I was present. They explained the problem that I believe around 20 percent of the retail grocers are now being charged at least some fee for the redemption of food coupons, and they asked that we initiate a rulemaking that would preclude financial institutions which redeem food stamps from charging any fee to grocers.

We are considering that. We are working with other institutions, OMB and Treasury, in particular, about undertaking that sort of a rulemaking. We will get back to them quickly, as soon as we get every thing worked. So I am sorry I do not have a solution. We are now considering the initiation of a rulemaking.

Senator MELCHER. How long has this been going on?

Mr. BODE. I think about 1 month, as far as since they requested that we undertake rulemaking. We have been working with the retail grocers and the financial institutions a lot longer. We were concerned about this. It has been a growing problem. So, we actually initiated some meetings with the retail grocers and financial institutions to find out what we could do to ease the pressure on financial institutions and make it easier for them to handle food stamps, so financial institutions would be less apt to charge a fee.

Senator MELCHER. I have another point for you, Mr. Bode. When do you expect to implement the Kentucky demonstration project?

Mr. BODE. We are eager to proceed with that project. We have been working out final details with Mr. Cubine. I believe he received yesterday a written document from us articulating what we understand to be the agreement that has been discussed. If there are problems with that draft, we have invited him to come back to us and let us know what they are.

Mr. CUBINE. We did receive a document yesterday. I would say it certainly is not what we expected. It is not what we were led to believe. I guess the question then, possibly, we would be interested if the committee has some feelings on this. We are getting into an area that no State has ever been involved in before, actually, grocer redemption, enforcement, and everything that goes with that end of the program. It is certainly not a requirement in Kentucky. There are no additional State dollars in it to take this on. The question that comes up is what liability FNS should have. Right now they have 100 percent liability for everything that happens on the retailer side. Right now the State's liability ends through either issuance or when you put them in the mail. We have payment-error liability within tolerance levels and mail loss. We are willing to take the additional liability. The question is should Kentucky be afforded 0.5, the same as the other 49 States, or should we be treated differently.

We think if we are willing to put in extra State dollars, extra State resources, and take on, because the very problem you just mentioned prior to this, the bank problem charging fees, this system eliminates it. The banks will never touch another coupon at all. The bankers in Kentucky are extremely supportive about it. You know, those type of things can be eliminated, but we do not see why we should have a tolerance level, and it is an arbitrary number. They are talking about a number—first they are saying they can change the number anytime during the first 9 months. Then they are saying we go to 0.25, which other than the fact it is exactly half of what the national number is, there is no validity to that number at all. It is arbitrary and capricious. We do not see why we should be treated different than the rest of the Nation, not when we are willing to do more.

If we were asking to get out of something, get out of our responsibilities, to waive something we are supposed to do, I would say we have no grounds at all. But if we are willing to take on more and do more, we should at least be treated like the rest of the country.

We are not asking for special consideration. We are asking for equality.

Senator MELCHER. Anything to add to that, Mr. Bode?

Mr. BODE. Sir, I will confess I did not come to this hearing with the expectation that it was going to be a forum for negotiating an agreement, or that you would be asked to arbitrate. We are eager to work this out with Kentucky. We have been working with them for a good while.

We are at a stage on this project that I think we get to in many projects. We are very close to getting everything all nailed down. I think nerves are a little frayed on both sides, and it would be unfortunate to have things fall apart now.

Senator MELCHER. Well, I think Congress is generally in the middle. So we are used to it. We do have an interest, if and when this plan will be implemented.

Mr. Bode, your testimony refers to the Department's proposal to set an error rate target at 3 percent. Yet, it goes on the next sentence to say that the national average for the most recent 6-month period is over 12 percent. If you reduce that to the count of only ineligibles and overissuance, you get down to just under 10 percent.

Does the Department have any legislative recommendations or requests?

Mr. BODE. Yes, sir, we do have legislative recommendations that were included in the President's 1984 budget proposal. Those have been discussed in earlier testimony so I did not restate them in this testimony.

I think our general philosophy that is reflected in those proposals is that a greater share of the responsibility, financial responsibility, for administering the food stamp program should be shouldered by the States. That is not because we believe the State welfare workers are at all reluctant to reduce errors. I am sure they are fully dedicating their energies to reducing food stamp errors; however, they are not the only ones involved in making important State decisions about resource allocation. Certainly their State legislatures are involved in a major way. So we feel that increasing the States' responsibility for errors made in the food stamp program should be done and I, for one, feel that too much of a punitive connotation has been associated with the sanctions.

Generally speaking, the program should be simplified, categorical eligibility for AFDC households is one way that that could be accomplished, as has already been mentioned favorably.

Senator MELCHER. I recall seeing some recommendations earlier this year. Is the Department and the administration still intent on those recommendations?

Mr. BODE. Those are proposals that were submitted to the Congress as part of the President's budget, and those have not been rescinded. We are very mindful of the development of the general debate, particularly in Congress, with respect to changes in the food stamp program.

Senator MELCHER. I and my staff have been working with the Department during the past several months, attempting to get some advice and some thinking on fraud or error rate. I think we have been told that the Department believes that in a biennium there is $2 billion in fraud or error involved in food stamp issuance. I notice the testimony today, perhaps both you, Mr. Bode and Mr. Gabriel, is that you feel it is about $1 billion each year. That is still the most current thinking.

Mr. BODE. Sir, I would like to emphasize that error is included in that number.

Senator MELCHER. I said fraud or error.

Mr. GABRIEL. Yes, OK. That number derives from an estimate of the quality control system. I have read it in U.S. General Accounting Office reports, and certainly it has the magnitude and significance to expect a tightening of controls and reducing as much fraud as possible.

My own feeling is we have got to exercise more efforts in the prevention program. This is the direction in which we are going now. Any time you have fraud, the effect and the hurt to the Government usually results from a breakdown in the internal controls, which are those systems which deal with the authorizations, safeguarding the assets, numerical sequencing, accounting systems, and the information systems. I think many of the issues that were brought out today in just the process of administrative fraud hearings and prosecution are the aspects after the fact, and maybe

some deterrence comes from it. But it is the underreporting of income and the understating of family size where the program breaks down and where we get these overissuances, and overpayments.

Senator MELCHER. There is a figure I think I was presented along with that $2 billion figure from either 1980, or 1981, or 1979 to 1981, or 1978 to 1980. Whatever it was, I think it also indicated that $20 million was recovered. Is that correct?

Mr. BODE. Yes, sir. I believe it is terribly low.

Senator MELCHER. Both sums are huge. $2 billion does not sound so huge if you say it fast or people are not paying attention to what you are saying. $20 million sometimes sounds like more to some people because they relate to millions easier than they do to billions. But is that not a 1-percent recovery?

Mr. BODE. I am sorry. I do not know the percentage. It is terribly low. There is some limited good news, and that is it is much more than it used to be, the difference between fiscal years 1981 and 1982, we have had an increase in claims collected; fraudulent issuances of an increase of 61 percent. That is only part of the total picture that you are addressing, but it does show that at least there is some improvement in the area. I think the witnesses at this table have worked hard to increase those collections.

Senator MELCHER. So that is roughly 1 percent. There is a lot of room for improvement.

Mr. CONRAD. Senator, the Inspector General has made a point, detection is a whole lot more costly than trying to get people to pay it back.

Senator MELCHER. Who is going to disagree with that?

I want to point out what the Inspector General has said too. He said that administrative hearings are long, and tedious, and not very effective. I am not putting words in your mouth, Mr. Gabriel. I am just saying that administrative hearings are long and tedious. They are time consuming and do not do much.

You mentioned the size of the household and income level as being the two areas in which you see the most fraud. It would be my thinking that where the most fraud is on assets. Is the law still the same, $1,500 in assets or thereabouts, liquid assets? Outside of insurance.

Mr. GABRIEL. There is an asset requirement, but the income is the one that is principally identified, and indentifying underreporting of income comes from the new techniques with the computer matching.

Senator MELCHER. I can understand that because it is easier to check somebody's income, but why do you conclude that it is the one that is the most often abused? I do not know how anybody qualifies on assets unless they are extremely poor. I think there are people who are receiving food stamps who would not be eligible if their assets were counted. Have you done anything about that?

Mr. GABRIEL. We look into eligibility and we also look at assets.

Senator MELCHER. How do you do it?

Mr. GABRIEL. Well, a long time ago the ones I specifically did were direct interviews. I was out in the streets and I would interview a recipient and the information they give, you then try to corroborate it. Many times they give you a zero, and that is pretty

tough to verify when they say there is nothing. If there is something, you have an opportunity to verify it.

Ms. NAKATA. Senator, in the quality-control reviews and management-evaluation reviews and other case reviews in Kansas recipient files, they have identified a very low problem with assets. We have used available matching techniques in the State, such as cross-matching county attorney records and tax files, different files to determine assets. I think that the majority of the people who are receiving food stamps have been at such a low-income level for so long that they do not have major assets.

Senator MELCHER. Maybe I am misled. I have been of the opinion that we see an increase in food stamp levels where there is unemployment and that much of that increase is the newly unemployed family. Is that right or wrong?

Ms. NAKATA. I think that is right and as that increase happens there will be a bigger problem with assets.

Senator MELCHER. I should think so. Now, taking my own State, since assets count against the $1,500 limitation, you can only have one car, or two cars of a certain value, but you cannot have a boat, can you, without accounting?

Ms. NAKATA. If it all totals under the level.

Senator MELCHER. Or a camper. In our State that is a big deal, four-wheel drive vehicle; does that qualify?

Ms. NAKATA. We have done——

Senator MELCHER. Can you qualify with a four-wheel drive vehicle that was worth $6,000, $10,000, or $15,000?

Mr. CONRAD. It depends on the equity.

Senator MELCHER. I know how tough this is. I was part of the committee in the House when we debated this very point. There was a question of either having an asset limitation, or some restraint, or there was not going to be passage of the authorization, let alone the appropriation on the House floor. So, we opted for that very severe asset limitation. I do not believe it has ever been enforced. I do not think anybody in the Inspector General's office is attempting to enforce it. I do not think you have got a plan to enforce it.

Mr. GABRIEL. Well, I cannot answer that specifically today.

Senator MELCHER. Your testimony and your comments since then demonstrates you do not focus on it.

Mr. GABRIEL. We focus primarily on the matching.

Senator MELCHER. I know. I am not trying to belabor the point. Either the law is too tough to be enforced, and it should be amended to something that will be enforced, or else we ought to opt for finding a way to enforce it. That is an extremely tough provision to meet for a family that has had a job during the last 1½ years, let alone the last 2 months, because assets are there, and that asset test is an extremely tough one. Have you ever tried to enforce it?

Mr. GABRIEL. Yes, I just wanted to bring something before the committee. Part of our procedure whenever we investigate an incident involving overissuance is to look at the full scope of that family's household, and that includes assets. A very small percentage of our cases turn out to involve assets as the primary source of the overissuance.

Senator MELCHER. How many rifles can you have, or shotguns, without counting against your assets?

Mr. GABRIEL. I am not sure you get into the point during the investigative process of wanting to inventory a defendant's house. It is almost a search-and-seizure-type thing.

Senator MELCHER. I know. I just repeat, you know, we chose that way to have some tough teeth in the law in order to make sure we were going to be able to pass the authorization act on the House floor. I do not know how long it has been in the law; I think about 12 years. We amended it in 1977.

Mr. CONRAD. 1972.

Senator MELCHER. Then it was 11 years ago that the House committee put that in. Maybe it is so impractical we ought to change it. I do not know how you delve around a person's home. I agree with you. It is almost an invasion of privacy. As far as some things, we can cross check in our State on tax rolls whether a person has a boat, a camper, vacation trailer, or what have you.

Mr. GABRIEL. When you go out on an investigation, it is very evident if you have got a boat sitting on one side of the house and a camper sitting on the other.

Senator MELCHER. Yes. Go ahead Mr. Cubine.

Mr. CUBINE. There are two things, to follow up what you mentioned, one is that Massachusetts has done a lot of work in terms of the liquid resource area. The AFDC program turned to bank matching. The problem with that is, in the absence of Federal legislation, most States would need State enabling legislation to do those type matches, especially when you get into the urban areas, unless you pick up on someone's rent receipt, check, or something like that, if you get 8, 9, 10, or 12 banks in an urban area, different banks, most banks would never cooperate with sending lists of thousands of names on checks, so there had to be some automated way to do that. There would be some need for legislation.

The other area, you talked about collections, and this is an area that Congress is looking at right now, is the last 2 years in the child-support area, we collected $2 million the first year and $1.6 million the second year in IRS intercept. Right now the discussion is whether that should be expanded to non-AFDC families. The Kentucky General Assembly is going to consider in January whether such legislation in State revenue should be extended to AFDC, food stamps, and medicaid. There are millions of dollars the Internal Revenue Service brings in every year, money that is owed the Federal and State government, and they turn right around and write checks right back out. Yet those moneys could be collected and in the food stamp program it is more applicable than AFDC or medicaid, its potential for those type collections.

Senator MELCHER. I notice the testimony today from the States has been to the effect that patterning after procedures in AFDC might be helpful.

Let me ask a basic question now, Mr. Gabriel and Mr. Bode. Is the primary responsibility of fraud Federal? Is it primarily Federal responsibility or is it primarily a State responsibility? Or is it just a mix?

Mr. GABRIEL. I think it is a shared responsibility, Senator. I think it is too important a problem for either partner in adminis-

tration in the food stamp program to defer to their counterpart. We have tried—the actual hands-on work, especially on the prevention end, where I think it is most important, the States have more involvement there. We are not willing to back off in any respect in pursuing fraud at the Federal level.

Senator MELCHER. Mr. Gabriel, I certainly agree with you that the administrative hearing route is going to delay things so much that it is going to hardly ever be undertaken. However, you mentioned prosecution. I do not think there is any prosecution on personal fraud anyway, is there?

Mr. GABRIEL. Very little.

Senator MELCHER. Very little.

Two points on that: We do not have an affidavit system in the application, as far as I am aware; sure, they sign some form, but it is such a long-winded form that they have never really read it nor comprehended it. I am talking about most recipients. I am not putting them down. I just simply say that most long forms of a Federal nature—maybe States have improvements, I do not know—simply are not read but they are just signed. Perhaps there should be a simple affidavit procedure vouching for the veracity of the statements rendered on income—all three, income, number of family, and household makeup, and asset limitation. Would that be helpful?

Ms. NAKATA. I think that is something——

Senator MELCHER. Maybe we had better ask the States that, because you are on the firing line. What do you think?

Mr. CUBINE. That is in place in our State.

Senator MELCHER. How simple is it?

Mr. CUBINE. It is placed on the back of the application which says; "All the information herein is true and correct to the best of my knowledge and understanding." It is signed in front of the caseworker and the caseworker goes over the application.

Senator MELCHER. It is somewhere in the forms that I have looked at.

Mr. CUBINE. That is correct, sir.

Ms. NAKATA. That is also in place in Kansas.

Senator MELCHER. I think it is in place in every State. I have looked at the standard form, and I do not believe that people read through all that. I am just saying a separate affidavit that says if you have misstated your income, if you have misstated the makeup of your family, and misstated your assets, you are liable for fraud and it is a Federal crime. I am saying put it that blunt. There is value in such a separate affidavit.

Ms. NAKATA. Such an affidavit is on the Kansas food stamp application.

Senator MELCHER. On the back of it?

Ms. NAKATA. It is right there on the application, and each worker goes——

Senator MELCHER. On the back of it?

Ms. NAKATA. It is on the back of it. Each worker goes over it at the time of certification with the household representative, and it is in darker bold print, and a statement of understanding and agreement is right there with it. It is right by the signature that

the household must understand and agree, and that is something that is gone over in certification in Kansas.

Senator MELCHER. Well, be that as it may, I find that of all the forms the citizens have to sign, this is one that does not seem to indicate a great seriousness to it. Boldface, yes, but that is standard, is it not?

Mr. BODE. Yes, we require that it be boldface.

Senator MELCHER. When you sign much of anything in my State, you have always got to notarize your signature, and this gives you a certain feeling that people know what they are signing. This one does not require tnat in any State, does it?

Dr. ROARK. Sir, you were commenting about the complex form. I would just like to enter for the record a monthly reporting, a retrospective budgeting income form, and if it is not more complicated than 1040, long form income tax, I will eat it, sir. [Laughter.]

I would enter that for the record.

Senator MELCHER. Well, of course, when you say 1040 forms, we have been trying to simplify them I think for at least a generation. I think they are a little more complicated than when we started. Well, I am going to drop this affidavit thing. It does not ring a bell with any of you very much. It is just my question whether that would do much.

Second, I would like to focus on this problem that Mr. Gabriel, I think, is correct on—that the administrative hearing does not do much and is not very effective. Since there is not any prosecution, or very limited prosecution on fraud, is there any opportunity in the small claims court? Is that ever used? Have some States tried that?

Mr. HILL. Senator, let me, I hate to take the devil's advocate, but the fraud hearing process and the court process are both very viable processes. Last year in our State the fraud hearing process alone amounted to over 20,000 months of disqualification that took place in the program.

Senator MELCHER. How long does the hearing process take?

Mr. HILL. The hearing process takes a normal investigative time, whether it is going to court or to administrative hearing. If you decide it goes to a hearing, our investigative staff do not have to go out to the site, it is done telephonically. We can use the waiver system as well. People say, "I want to pay the money back." Certainly I do not want to go home today with the idea that I did not speak up and say that I thought the hearing process and prosecutions are very important tools.

Senator MELCHER. Is this hearing process a State process?

Mr. HILL. Yes, sir.

Senator MELCHER. Do you hitch it onto a Federal hearing, or do you have to?

Mr. HILL. We do not hitch it on to a Federal hearing.

Senator MELCHER. It is not necessary.

Mr. HILL. No, sir.

Senator MELCHER. It seems to me that the most significant thing we are talking about is recovery rate—that would be money you got back. You have all touched on it throughout this hearing today. But it is also significant to prevent future loss. I am sure you find

that when you do get some recovery of overissuance you also are eliminating somebody who is not eligible.

Mr. HILL. I am in way of saying that prevention should not be up front, but once it gets past the first line of defense, you need to have a system of investigating those who do.

Senator MELCHER. Mr. Gabriel, you were referring to Federal hearings, were you not?

Mr. GABRIEL. We were referring to the administrative hearing process.

Senator MELCHER. Under State or Federal law?

Mr. GABRIEL. State.

Senator MELCHER. Well, I was thinking of the Federal rules on administrative hearings.

Mr. GABRIEL. What we were talking about was the cumbersomeness of the process. I think one of the gentlemen over here mentioned that they conducted 1,800 fraud hearings and found 1,600 cases—1,600 cases of fraud. So once they have gotten a hearing underway they were effective. We are talking about whether you ever get them underway because of the shortage of resources.

Mr. HALL. That is since 1981.

Senator MELCHER. All right. Now, you have done how many since—what year?

Mr. HALL. We have done about 3,000 administrative fraud hearings since 1979.

Senator MELCHER. 3,000?

Mr. HALL. Right. And we have been successful in disqualification in about 80 percent.

Senator MELCHER. Well, 3,000 since 1979 is not a big number.

Mr. HALL. Maybe there is not a lot of fraud in the program at the recipient level.

Senator MELCHER. I am sure on assets there is a lot of fraud, and I do not even know that it is deliberate fraud, with all due respect to who reads and who does not read the form. I have never talked to anybody that is on food stamps or was thinking of getting on food stamps, or almost anybody who ever complained to me about food stamps that was aware of the asset limitation. So it simply is not understood, and maybe it is not good law. I am not necessarily of the opinion that it is good law. Anything that was $1,500 assets in 1972 now has no relation to $1,500 in 1982 or 1983. There is a vast amount of difference, but we have not changed that. We made some amendments in 1977, but the overall $1,500, I believe, remains the same.

Mr. BODE. $1,500 was set in 1981 when a provision was added so that it would be higher for persons with two or more eligibles; then it is $3,000.

Senator MELCHER. I am not sure what we set it at in 1972, but I think it was $1,500.

Dr. ROARK. Senator, I think it is significant we have been talking about administrative fraud hearings; this is really an up-front disqualification. It is 6 months' disqualification. You have saved 6 months of benefits. And the second time for what, 1 year, and then the third time of an administrative fraud hearing, you are out of the program forever. This is up-front savings in money. It is hard to quantify.

Senator MELCHER. Yes, it is.

Mr. ROARK. Very difficult.

Ms. NAKATA. Once a State has an administrative fraud hearing system in place, it is a very rapid system compared with the judicial system.

Senator MELCHER. How many States have it in place? Mr. Gabriel?

Mr. GABRIEL. I think pretty well all of them.

Senator MELCHER. Does every State have it in place?

Mr. GABRIEL. I would say we were looking principally at one piece of this program, about 10 States that we were looking at. I cannot answer that question without furnishing it for the record.

Senator MELCHER. Are they required by law to have this?

Mr. HALL. Senator, we have conducted 4,200 of these hearings in the last fiscal year.

Senator MELCHER. 4,200?

Mr. HALL. 4,200.

Senator MELCHER. In 1 year.

Mr. HALL. Yes, sir, 1 year. Around 3,900 resulted in disqualification.

Senator MELCHER. Well, the State of Massachusetts had some success in matching food stamp recipients and assets against savings accounts, as I understand.

Dr. ROARK. Yes, sir.

Senator MELCHER. You stated that would perhaps require some change in State law.

Mr. CUBINE. Certainly in Kentucky, and every State law, sir. Kentucky takes enabling legislation.

Mr. BODE. Some States are moving with that. I know New Hampshire recently pushed through a law of that sort.

Senator MELCHER. We got away from what I originally asked, and that was does any State use a small claims court? Do you think administrative hearings, are deterrent enough, and if used more widely might at least keep some people from making fraudulent statements? Might hearings make them more knowledgeable that certain behavior would be fraudulent and therefore make them more reluctant to attempt to be eligible by hiding something? Is that correct, Dr. Roark; is that your point?

Dr. ROARK. Generally, yes.

Senator MELCHER. I think you stated it better than I did. I am following along with you generally. Is that right?

Mr. HILL. We have examined the possibility of the small claims process. Because of the fee and also the time to get it on the docket, with a large volume of cases, we feel the administrative process is by far the best.

Senator MELCHER. Mr. Roark, I appreciate your drawing to the attention of the subcommittee, the complications of the Mississippi form that was developed to satisfy Federal requirements. This will be made a part of the record.

MISSISSIPPI
Form DPW-323/501
Revised 04-01-82

Monthly Eligibility and Income Report – Mississippi State Department of Public Welfare

(If you need help in completing this form, call the phone number below.)

Answer all of the questions on this form. If you mark ☐ Yes, you must explain your answer. Failure to answer all questions and to return this form promptly could cause your check, Medicaid card or Food Stamps to be delayed or stopped.

Return form to

This REPORT MONTH is	— DUE DATE

INSTRUCTIONS: READ CAREFULLY

Completely answer all of the questions about the report month sign and return this report to your county welfare office by _____ or you may not receive benefits for _____ and your case may close. If you fail to send earning verification by _____ for the report month shown above, work expenses, child care and other disregards may not be allowed for ADC.

FOR COUNTY USE ONLY

Name of Screener

Eligibility Worker

Action Required/ADC?		Action Required/FS?	
☐ Yes	☐ No	☐ Yes	☐ No

(1.) PERSONS IN YOUR HOME

INSTRUCTIONS: The questions in this section are used to help you report changes in your household which can affect your eligibility for ADC, Medicaid, and Food Stamps.

How many people live in your house? _____ (Enter Number)

Were there changes in the persons in your home? (Mark X) ☐ YES, answer questions below ☐ NO, go to (2.)

CHANGE	YES	NO	If Yes, give the name of person and explain what changed and when. Attach a separate sheet if needed.
• Did someone move in or out of your home? (include new baby)			
• Did someone get married, divorced or die?			
• Is someone visiting in your home?			
• Is a member of your household visiting away from home?			
• Other changes you need to tell about. (EXPLAIN.)			

(2.) INCOME FROM WORK

INSTRUCTIONS: Report the income of anyone who worked during the REPORT MONTH. You must include income from employment and self-employment, babysitting, private house work, farm work, tips, etc. You must provide proof of your income from work with this form. If you have wage stubs for the REPORT MONTH you must send them with this form. If you do not have wage stubs or if you do not have ALL wage stubs for the REPORT MONTH, the employer for the REPORT MONTH must complete a section below. If you are self-employed, contact your worker immediately. Attach a separate sheet and give the required information if more than 2 persons in your household are employed.

Did you or anyone in your home have earnings? (Mark X) ☐ YES, answer questions below ☐ NO, go to (3.)

Name of person with earnings	How much did he make during the REPORT MONTH $

Was this person on strike at any time during the REPORT MONTH ☐ YES, what dates _____ ☐ NO

Do you have ALL check stubs for the REPORT MONTH
☐ YES, → Put them in envelope with this form
☐ NO, → Have employer complete the section below

EMPLOYER'S NAME, ADDRESS AND PHONE

DATE EMPLOYMENT BEGAN: ENDED:

DATE PAID	MO/DAY	HOURS	GROSS EARNINGS INCLUDING TIPS
1st payday			
2nd payday			
3rd payday			
4th payday			
5th payday			

Employer's Signature Date

Name of person with earnings	How much did he make during the REPORT MONTH $

Was this person on strike at any time during the REPORT MONTH ☐ YES, what dates _____ ☐ NO

Do you have ALL checks stubs for the REPORT MONTH
☐ YES, → Put them in envelope with this form
☐ NO, → Have employer complete the section below

EMPLOYER'S NAME, ADDRESS AND PHONE

DATE EMPLOYMENT BEGAN: ENDED:

DATE PAID	MO/DAY	HOURS	GROSS EARNINGS INCLUDING TIPS
1st payday			
2nd payday			
3rd payday			
4th payday			
5th payday			

Employer's Signature Date

(3.) COST OF CARE FOR CHILDREN OR ILL OR DISABLED ADULT

INSTRUCTIONS: This section is about what you pay for someone to take care of your dependents while you work. (For food stamps this also applies when you are looking for work or going to school to prepare for a job.) If you pay someone you must also send a statement with this form from the person providing the care that verifies the amount.

Did you pay someone to take care of your children or an ill or disabled adult? (Mark X) ☐ YES, fill in below ☐ NO, go to (4.)

Name and Address of Person Providing Care	Phone Number	Amount You Paid	Person(s) For Whom Care is Provided

MI881881P71
Form DPW-322/501
Revised 04-01-83

(4.) OTHER INCOME

INSTRUCTIONS: This section is about INCOME OTHER THAN FROM WORK. Report the amount of each payment received during the REPORT MONTH. Attach another sheet if needed. Examples are: SSI, social security, unemployment benefits, strike pay, workmen's compensation, disability insurance, veterans benefits, pensions, child support, military allotments, contributions, income from property and rental property; lump sum payments, such as past social security or SSI, an insurance or court settlement, educational grants or loans. You will be contacted if we need verification.

▶ Did anyone in your home have other income? (Mark X) ☐ YES, write in below ☐ NO, go to (5)

Name of Person Receiving Income	How Much?	What Kind of Income?	When Was It Received
	$		
	$		
	$		
	$		
	$		

(5.) PROPERTY OR OTHER RESOURCES

INSTRUCTIONS: If the resources of anyone in your home have changed, REPORT the change below and contact your worker. Here are some examples of resources:

- cash, checking account, savings account or certificate
- car, truck, camper, boat, motorcycle
- mineral rights
- stocks, bonds, securities
- trust fund or deed
- land, house, buildings
- life insurance

▶ Were there changes in resources? (Mark X) ☐ YES, write changes below ☐ NO, go to (6)

Item of Resources	What Happened? (Bought, Sold or Changed Value)	Date It Happened	Amount You Got/You Paid	Amount You Still Owe
			$	$
			$	$

(6.) SCHOOL ATTENDANCE

INSTRUCTIONS: List anyone in your home who started or quit school or reduced school hours during the REPORT MONTH.

▶ Were there changes in school attendance? (Mark X) ☐ YES, list below ☐ NO, go to (7)

Person's Name	What Happened? (Mark X)	Name of School, College or Training Program	Hours Per Week
	☐ started ☐ quit ☐ attend part-time		
	☐ started ☐ quit ☐ attend part-time		

(7.) MEDICAL COSTS – COMPLETE IF ANYONE IN YOUR HOUSEHOLD RECEIVES FOOD STAMPS

INSTRUCTIONS: Mark yes if anyone in your home is over 60 and receiving SSI, Social Security Disability or VA Disability and has medical expenses. Mark yes if you have to pay someone to care for an aged, ill or disabled person. Supply verification if your medical costs have changed more than $25 and you answered yes.

▶ Did anyone have these costs? (Mark X) ☐ YES, list below ☐ NO, go to (8)

Person' Name	Type of Medical Cost	Person Providing Care	Amount
			$
			$

(8.) HOUSING AND UTILITY COSTS – COMPLETE IF ANYONE IN YOUR HOUSEHOLD RECEIVES FOOD STAMPS

INSTRUCTIONS: Complete both 8a and 8b.

a. Have you moved or had a change in rent, mortgage payments or other housing costs?
☐ YES (attach verification and explain below) ☐ NO

b. Do you get utility bills separate from rent? ☐ YES (see below) ☐ NO, go to (9)
If you answered YES: If you are not using the utility standard and your TOTAL utility costs have changed $25 or more since your last recertification this must be reported and verified. If not verified no utility deduction will be allowed.

(9.) EXPECTED CHANGES

▶ Do you expect a change in any information you have given on this form? (Mark X) ☐ YES, list expected changes below ☐ NO

If your benefits are lost due to failure to file a complete monthly report, you will be reinstated if you file a complete report no later than the end of the calendar month in which you lost benefits provided the information shows that you remain eligible.

You may request a hearing if you believe any action of the department is incorrect, improper, or illegal. A request for an ADC hearing must be in writing and signed by you or a person acting for you. A hearing request for Food Stamps may be made in person or by telephone. Send the request for a hearing to your local County Welfare Department, who will advise you about reinstatement of your assistance.

The Department of Public Welfare is authorized under The Tax Reform Act of 1976 (Public Law 94-455) and Amendments to the Food Stamp Act of 1977 (Public Law 96-58) to require social security numbers for all food stamp recipients. The purpose is to ensure accuracy of benefits for all food stamps households by using the numbers for purposes such as computer matching, making mass changes and checking the identity of household members. Failure to provide required social security numbers could result in ineligibility.

If the alien status, social security number, residency or citizenship status of any person in the household has changed you must provide verification of this change.

I understand that the information I provide on this report form may result in changes in my assistance, including reducing the amount of my check, food stamps, and Medicaid or closing my case. I understand that such changes may be made without advance notice but assistance may be reinstated.

IMPORTANT * I understand that completion of this form does not relieve me of the responsibility of reporting all changes in my circumstances within 10 days to my local County Welfare Department.

To the best of my knowledge, I certify that the statements on this form are true and correct.

I AM AWARE THAT FEDERAL AND STATE LAWS PROVIDE FOR A FINE AND/OR IMPRISONMENT OF ANY PERSON WHO FRAUDULENTLY RECEIVES PUBLIC ASSISTANCE, MEDICAID OR FOOD STAMPS TO WHICH THE PERSON IS NOT ENTITLED.

Your Signature or Mark	Date	Phone number where you could be reached
Signature of Other Person Completing Form or of Witness if Signed by Mark	Date	

Dr. ROARK. Monthly reporting and retrospective budgeting, sir.

Senator MELCHER. Could you recommend a simple form to accomplish everything that this purports to accomplish?

Dr. ROARK. I do not know that I could. Let me tell you the problem we have had. We are trying to go through orientation sessions now with our food stamp recipients. Twenty-five percent of our population now are receiving food stamps. It is unfortunate, but that is the factual situation. We are having orientation sessions and trying to get prepared to implement monthly reporting and retrospective budgeting. I do not know how to describe this and be fair about it except to say it is like trying to take a bunch of kindergarten kids and teach them calculus. Many of the folks, the recipients of our food stamps cannot even read and write, and you hand this form to them and they panic. They simply panic. They want to do what is right, but they just do not have the ability to fill it out. It is a tremendous administrative burden upon the clients we are supposed to be trying to service through this national program. That is why I wanted to enter it for the record.

Senator MELCHER. All right. Then I guess we have the tougher job of not just rearranging a form, but the job of simplifying the procedure required under law; is that correct?

Dr. ROARK. Yes, sir. That is correct, sir.

Senator MELCHER. Now that you have got your proposals up here, can you recommend the requirements to resolve the procedures that are simpler and easier to attain in order to do the same thing we have attempted to do through some rather complicated revisions in the law from time to time—the 1972 act, which amended the original act, and amended in 1977 and even in 1981. I tend to agree with Mr. Roark that a great percentage of people that apply for food stamps want to do the right thing and are not attempting to evade or avoid anything. A further point can be made that in almost every State in this country many people do not apply that are eligible because either they really do not understand what they are obligating themselves to by the form, and are a little bit scared of it, or in many instances, particularly with the elderly, there is a matter of dignity. To whatever extent we are successful in simplifying the forms and making it absolutely clear to recipients who is eligible and who is not, we will not only save some trouble over those who are not eligible from getting on, but also give more dignity to the program and simplification to the program so that where some who are really very eligible and very nutritionally needy can get on.

Mr. BODE. Senator, I think numerous proposals have been made for simplifying the program, and certainly that is the objective that we have attempted to reach. One that has already been mentioned today, and that I hope you will give serious consideration to, is categorical eligibility for the food stamp program for AFDC recipients. It makes a lot of sense. I think about 25 percent of the food stamp households are AFDC households, and this would dramatically reduce the paper shuffle. These cases are not the most difficult cases to deal with in the food stamp program, Senator. I do not want to mislead you, they are not the most difficult, but they do require a lot of effort. To the extent that caseworker time can be freed up from working on those AFDC cases, and those people can

be relieved of having to go through the hassle, more caseworker time can be dedicated to the more difficult cases.

There is another issue and that is the standardization of benefits with AFDC caseload. And I can see Dr. Hall wiggling in his seat if you talk about that. I would put my emphasis on the categorical eligibility in this discussion rather than the standardization of benefits and take that as a point where I think we can all agree is needed in the program, and that is one part of our legislative proposals that I was very disappointed did not get off the ground this year.

Senator MELCHER. Is it part of your legislative proposals?

Mr. BODE. Yes, sir.

Senator MELCHER. Do you all agree that this would be helpful?

Mr. CUBINE. If you do not tie the standardization of benefits into it. If you just leave it as categorical eligibility. If you look at the AFDC eligibility in almost every State, it is far lower than what the food stamp limitations are. Resource limitations are going to be compatible. The States will make some adjustments.

If you meet AFDC, and it is an AFDC household, there is no problem with that. Standardization of benefits is just a whole different thing. That has always been tied together. So are you saying you are willing to separate them?

Mr. BODE. No, our proposal is for both, but I am saying this is a two-step process. If we can all agree on at least the first step, we ought to proceed with that.

Mr. HALL. You cannot agree on the first step without knowing what the second step is.

Mr. BODE. You are saying a decision has to be made, and I am saying the decision can be made in Congress. Why do we not at least go to Congress and agree on the first step and then, we can squabble about the second; but let us go on with the first step and get categorical eligibility going. Let's stop subjecting the recipients to hassles they do not need to go through, as well as the needless paper.

Mr. HALL. Well, we have debated this point a long time and I do not propose to do it here in front of Senator Melcher——

Senator MELCHER. Maybe I am the one that needs it.

Mr. HALL. The truth is, Senator, the administration has never proposed categorical eligibility by itself. It has always been tied to standardized benefits. And we are very concerned that the national eligibility standard be viable if that happens. That is my concern. That is my personal concern. And I cannot, again personally, agree with categorical eligibility that is put forth.

Senator MELCHER. Because it includes standardization.

Mr. HALL. Yes. It has every time.

Senator MELCHER. When you say the administration, I assume the proposal has been made regardless of whether it is a Republican or a Democratic administration.

Mr. HALL. Well, it used to be categorical eligibility back in the days of the purchase requirement.

Senator MELCHER. Yes. When we dropped the purchase requirement, we also dropped categorical eligibility.

Mr. HALL. That is when you started counting AFDC and general assistance and other assistance programs income as income. Prior to that time you did not do that.

Senator MELCHER. That is right. That was about the middle of 1977. I was not in Congress at the time the original act was passed. I was a Member of the House for only a few months when I found out, the Agriculture Committee had jurisdiction. It was not a very complicated thing then. Everything we have done to it since then has made it more complicated. Of course, it was a smaller program then and we thought we knew where we were going from the early seventies on. I frankly think that the program has been one of the great success stories of the Government on one hand, and, also, at the same time, an obvious quagmire with an abundance of ineffective requirements and regulations, based on the law. I blame Congress. I want to make that clear. Congress has made the law, and it has made it extremely complicated. I hope I can see some of that complication removed. We are not going to go back I guess to the purchase requirement. I do not see that happening. But I want to heed your remarks on categorical grants—is that right?

Mr. BODE. Categorical eligibility.

Senator MELCHER. Yes, categorical eligibility based on other programs. I also want to heed what you folks are telling me that you do not want the standardization part of that. Although I am not very familiar with it now, I will arrange to become much more familiar with it. When we take up this matter early next year, which I hope we do, I hope it will be constructive, working with other members of this committee and working with all of you people within the various States. I see a devoted attempt by both parties in the Senate as well as the House to attempt to make the program more effective. That will mean good hard work to understand where the deficiencies can be eliminated or, at least, reduced.

Thank you all very much for your testimony and your help in this.

The subcommittee stands adjourned.

[Whereupon, at 12:50 p.m., the subcommittee adjourned, subject to call of the Chair.]

29-830 O—84——4

APPENDIX

STATEMENT OF HON. JESSE HELMS
A U.S. SENATOR FROM NORTH CAROLINA

Senator Dole, I appreciate you calling this oversight hearing on how States have implemented the reforms and improvements that Congress has adopted during the past several years.

Fundamentally, the food stamp program is caught between two competing interests. On the one hand, administrators at all levels of government--Federal, State, and local--desire that the program be as administratively simple and efficient as possible, an objective I share.

However, the additional interest of Federal taxpayers is that of insuring responsibility by the States in the operation of the current program. This is essential because under the present system the Federal Government bears 100 percent of the costs of the program--that is, all of the actual food stamp benefits distributed to individual households. Therefore, States have concentrated--all too often--on increasing the number of food stamp recipients. To do so did not cost the States a penny, but rather was financed by the Federal Government.

Additionally, there has been all too little concern with efficient administration of the program because--here, again--costs for failures in the system are being borne by the Federal Government. While administrative costs associated with the program are shared 50-50, between the Federal Government and State governments, this is a small percentage of overall costs--less than 10 percent.

The present system, however, provides little to no incentive for States to operate an effective and efficient program. In many cases, the States have sought to avoid or circumvent requirements designed to reduce incidences of fraud and abuse. This attitude was graphically expressed in a recent letter which I received from a county official who complained about the "expense" associated with one important anti-fraud provision of the Food Stamp Act:

> "We are obviously distressed that local funds (50%) are required to provide for staff costs in order that the Federal Government may reduce their own cost. It would appear that a reasonable solution would be for the Federal Government to provide all funds (emphasis added) necessary to increase local staff in order to meet a program that would perhaps result in

Federal savings. We applaud the purpose of this regulation, but we also believe that local governments ought not be required to expend local funds for the increased effort required."

This is precisely what is wrong with State administration of the food stamp program. The tax dollars that are overspent in the food stamp program--approximately $1 billion annually--are those of all taxpayers. State and local officials and administrators must take a more active role in improving their administration of the food stamp program.

In my view, this fundamental attitude must be corrected. Several alternatives are available: States must be held accountable for overissuance errors that result--thus making them more responsible. Alternately, States should be permitted to have optional block grants so that they have the flexibility they desire as well as the accountability that would accompany a specified amount of Federal funds for such a program.

Despite the opposition to reform by some officials, other--more conscientious food stamp officials and caseworkers--have provided valuable recommendations to improve the program. Indeed, shortly I will be introducing legislation, based on many of their recommendations, to address specific areas of the food stamp program that remain subject to fraud, waste, and abuse. The legislation will greatly strengthen the integrity of the food stamp program and improve its accountability to the taxpayers who finance the program, while saving taxpayers approximately $1 billion annually.

While some States have been rather delinquent, there are bright spots among the States. I compliment the ranking minority member, Senator Huddleston, for the remarkable program which is being developed in his State and about which we will hear today.

Certainly one of the greatest weaknesses of the food stamp program has been the lack of automation which is otherwise so widespread in the rest of our technology-oriented society. Well, "high tech" is finally coming to the food stamp program. Several areas are experimenting with computer-assisted food stamp certification and issuance systems--the most ambitious undertaking being in Kentucky. I firmly believe that they're on the right track.

You know, it wasn't but two or three years ago when we were successful in getting social security numbers listed on food stamp applications. Now such data is absolutely vital to the successful operation of automated programs. Computers are increasingly essential in improving the integrity of the program. Computers are used for:

Verifying vehicle registration--even name and address.

Cross-matching wage data with food stamp files.

Matching for duplicate participation within a State--or between States.

We simply must continue to bring sound management techniques, including automated systems, to the food stamp program. Certainly such improvements will have to be a part of the future if Federal taxpayers are going to be expected to continue financing this program.

STATEMENT OF HON. BOB DOLE
A U.S. SENATOR FROM KANSAS

During the budget process of the last two years, the Congress has enacted many food stamp program reforms that have helped to enhance the image of this often highly criticized program. For example, with few exceptions students and strikers have been eliminated from program participation. I happen to be a strong supporter of the food stamp program, because I think it fulfills a very vital role in providing food assistance to needy Americans. However, we must make certain that this program is being responsibly administered, that benefits are being properly targeted, and that fraud and abuse are kept to a minimum--this program should be responsive to the needs of low-income families and individuals, while we consider the legitimate responsibility we have to the American taxpayers who ultimately pay for the program.

Effects of Reconciliation

The reconciliation process of 1981 and 1982 resulted in savings of about $7 billion in the food stamp program over a three-year period. Considering that some more expensive entitlements which do not primarily serve poor people were left untouched by the budget ax, I believe that we have now gone far enough in cutting back this program. Because of the kinds of budget proposals that were adopted over the last two years, we no longer have available similar options to achieve savings that would minimize the impact on low-income Americans. Throughout this budget process, we tried to enact proposals that resulted in improved program administration, rather than benefit reductions, in fact, the major savings last year were achieved by strengthening the error rate sanction system.

Responsibility to Recipients and Taxpayers

If further savings can be achieved by methods other than budget reductions, then we have a responsibility to see to it that this program works as effectively as possible to serve the legitimate needs of both recipients and taxpayers by tightening up where necessary to improve program administration and reduce the levels of fraud and abuse. There is a bipartisan commitment to achieve these goals.

Tread Issue Fairly

At this time, I would like to raise one issue that should be given fair treatment: while there are some deserving Americans

who fail to receive adequate food assistance, there are others who receive benefits who shouldn't be eligible. Yet this is rarely the focus of professional "hunger" activists or the media. In the food stamp program alone, it is estimated that about $1 billion annually is lost through overpayments of benefits, or payments to ineligible recipients, as well as outright fraud. A billion dollars could go far in providing assistance to those not now being reached by this program.

Specific Reforms

This hearing is an oversight hearing on what States are doing to implement the new authorities Congress has given them to improve program administration and go after fraud and abuse. With the enactment of the 1977 amendments, there was a provision for 75% Federal matching funds to States for anti-fraud activities; this was implemented in 1980.

In addition, some of the other program changes that were made in the 1981 and 1982 amendments include matching wage and other income data through information available from the Social Security Administration and the unemployment insurance system; the authority for new and expanded use of alternative issuance systems, such as the on-line systems already being utilized in many States; new procedures that may have been established for collecting overpayments, such as withholding of State income tax refunds; techniques to reduce mail issuance losses; and efforts to reduce losses from improperly replaced "lost or stolen" food stamps.

Of particular interest to me is the implementation of the current error rate sanction system, which requires States to reduce their error rates to 5% by 1985. Since this was my proposal to strengthen the system, I therefore have a great vested interest in seeing how this system is working out at the State level.

Witnesses will include State and local program administrators representing those States, counties, or cities that have been most effective and innovative in implementing the new authorities granted to them since the 1977 Food Stamp Amendments. We look forward to what they will have to say about how these new authorities are helping them to administer the food stamp program in their respective States.

STATEMENT OF HON. WALTER D. HUDDLESTON
A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, for several years now, the food stamp program has cost taxpayers over $10 billion annually. We can attribute a large portion of the current cost of the program to the State of our economy. However, a portion of the cost of the program can be attributed to fraud and abuse.

I am pleased that Congress has taken an aggressive approach toward alleviating the problems of fraud and abuse in the food stamp program. A number of program reforms have been enacted over the past several years.

I believe many of these reforms will provide positive results. However, we need to know--from those who are administering the program and implementing Congress's reforms--how the program is progressing and whether or not the changes in the program are proving to be effective.

I am pleased that the witnesses at the hearing will be giving the Committee the benefit of their knowledge and expertise of the program, and their evaluations of where the program stands now and what further needs to be done to make it more effective.

Mr. Chairman, I am particularly interested in receiving the views of Mr. John Cubine who is representing the Commonwealth of Kentucky.

John Cubine is the Commissioner of the Kentucky Department of Social Insurance. He will be describing a new and innovative computerized system in our State called the Kentucky Automated Certification and Issuance System, popularly known as KACIS. The system is designed to determine eligibility for food stamp clients and to issue food stamp coupons.

This computerized system will streamline eligibility determinations, but when doing so will protect program integrity by, among other things, automatically matching information with other program data in the system such as assistance payments, unemployment insurance, and wages. KACIS also provides for a new issuance system that uses personalized identification cards and coupons.

Mr. Chairman, I hope the Committee will take special note of Kentucky's new system.

STATEMENT OF LELAND E. HALL
DIRECTOR
OFFICE OF FOOD PROGRAMS
MICHIGAN DEPARTMENT OF SOCIAL SERVICES

Mr. Chairman, and members of the subcommittee, my name is Leland Hall and I am Director of the Office of Food Programs for the Michigan Department of Social Services. I am also President of the American Association of Food Stamp Directors, an affiliate of the American Public Welfare Association.

My comments today will focus on Michigan's efforts to prevent food stamp misissuance through the on-line method of benefit delivery, activities directed toward the small percentage of households who fraudulently obtain benefits, and state experiences with monthly reporting and retrospective budgeting.

Since the enactment of the 1977 Food Stamp Act, much legislative attention has been given to providing states the tools to combat fraud in the food stamp program. Two examples come quickly to mind: first, the 75 percent incentive funding for fraud detection and prosecution; and, second, a similar incentive for the development and installation of automatic data processing systems which not only protect program integrity but ease the burdens of overworked casework staff.

Michigan has used these tools with quite dramatic results but our on-line issuance system -- which prevents misissuance and duplicate issuance -- has been the most cost effective. It is also worth mentioning that this system has received national acclaim and the Secretary of Agriculture awarded our agency a "certificate of appreciation" in May of this year.

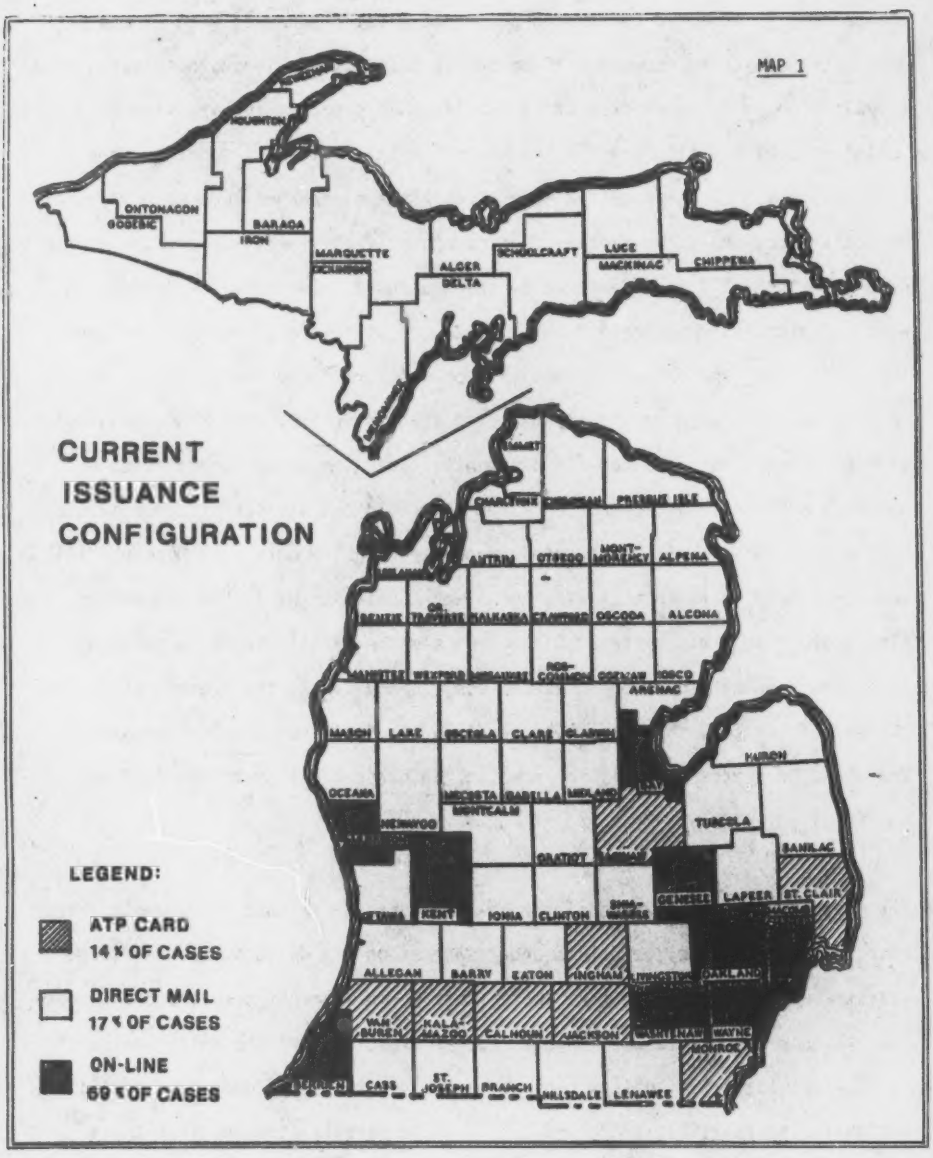
On-Line Issuance: A Preventative.

The Michigan Department of Social Services implemented an on-line food stamp issuance system in September 1981. The system was patterned after the Genesee County system successfully piloted in 1976. Implementation occurred in Michigan's most populous urban area, Wayne County, with a food stamp caseload of 180,000. The system, 77 terminals and printers connected directly to Michigan's statewide computer system, has eliminated the printing, mailing, and reconciliation process demanded by the use of ATP documents mailed each month.

Each eligible household receives a permanent plastic embossed card with a magnetic strip which is encoded with household information. When the plastic card is passed through the cardreader at the issuance site, an inquiry is transmitted to the statewide system for the household's eligibility status. The current information is then transmitted back through the cardreader indicating whether or not the household can receive food stamps. If eligible, the printer responds by printing the ATP for signature by the household. Once the ATP is printed, participation is immediately reconciled to the statewide system thus eliminating staff hours and delayed reconciliation which rendered the state vulnerable to overissuances as a result of not being able to quickly determine the disposition of original or replaced ATP documents. This immediate reconciliation prevents duplicate participation by the household and assists issuance agents with completion of daily and monthly reporting requirements. In December 1981, Genesee County, with an eligible food stamp population of 22,000 households, also implemented this system. Since that time an additional seven counties have been brought "on-line" -- as depicted in Map 1. At the present time, 69 percent of the food stamp caseload receives benefits from the on-line system, and when the system is fully implemented, 83 percent will get them that way as indicated in Map 2.

The most significant feature of the on-line approach is that it prevents fraud rather than having to spend time and resources on its detection. This is best illustrated by the finding that authorization replacements have dropped dramatically since the system was implemented. Exhibit A shows the dollar value of replacement authorizations by regulation which resulted in duplicate participation for fiscal 1981, 1982, and 1983. It is readily apparent from these data that duplicate participation has been significantly reduced.

It should also be mentioned that the administrative expenses connected with food stamp issuance have also been reduced. This is because we no longer mail paper authorization documents to more than half of the caseload and we have been able to secure a lower fee-per-transaction from issuance agents than is charged by the United States Postal Service. For example, in Genesee County the fee-per-transaction is 98¢ whereas the fee charged by USPS is $1.53. This and other summary information is presented in an attachment to this statement.


MAP 1
CURRENT
ISSUANCE
CONFIGURATION
LEGEND:
ATP CARD
14 % OF CASES
DIRECT MAIL
17 % OF CASES
ON-LINE
69 % OF CASES
ONTONAGON
GOGEBIC
HOUGHTON
BARAGA
IRON
MARQUETTE
ALGER
DELTA
SCHOOLCRAFT
LUCE
MACKINAC
CHIPPEWA
CHARLEVOIX
EMMET
CHEBOYGAN
PRESQUE ISLE
ANTRIM
OTSEGO
MONTMORENCY
ALPENA
BENZIE
GR. TRAVERSE
KALKASKA
CRAWFORD
OSCODA
ALCONA
MANISTEE
WEXFORD
MISSAUKEE
ROSCOMMON
OGEMAW
IOSCO
ARENAC
MASON
LAKE
OSCEOLA
CLARE
GLADWIN
HURON
OCEANA
NEWAYGO
MECOSTA
ISABELLA
MIDLAND
BAY
TUSCOLA
MONTCALM
GRATIOT
SAGINAW
SANILAC
GENESEE
LAPEER
ST. CLAIR
KENT
IONIA
CLINTON
SHIAWASSEE
ALLEGAN
BARRY
EATON
INGHAM
LIVINGSTON
OAKLAND
VAN BUREN
KALAMAZOO
CALHOUN
JACKSON
WASHTENAW
WAYNE
MONROE
BERRIEN
CASS
ST. JOSEPH
BRANCH
HILLSDALE
LENAWEE

MAP 2
ISSUANCE CONFIGURATION AT THE END OF CALENDAR 1984
LEGEND:
DIRECT MAIL 17 % OF CASES
ON-LINE 83 % OF CASES
ONTONAGON
GOGEBIC
BARAGA
IRON
MARQUETTE
ALGER
DELTA
SCHOOLCRAFT
LUCE
MACKINAC
CHIPPEWA
EMMET
CHARLEVOIX
CHEBOYGAN
PRESQUE ISLE
ANTRIM
OTSEGO
MONTMORENCY
ALPENA
KALKASKA
CRAWFORD
OSCODA
ALCONA
OSCEOLA
LAKE
MECOSTA
ISABELLA
MIDLAND
BAY
HURON
TUSCOLA
SANILAC
GRATIOT
LAPEER
IONIA
CLINTON
ALLEGAN
BARRY
EATON
CASS
ST. JOSEPH
BRANCH
HILLSDALE
LENAWEE

Our current plans with respect to issuance are to have the entire state either on direct mail issuance or on-line issuance by the end of fiscal 1984 -- paper authorization documents will be a thing of the past.

Protecting Program Integrity Through Detection

Efforts to identify food stamp fraud situations, initiate prompt investigations and pursue appropriate legal action are successful but not as cost-effective as its prevention.

Nevertheless, between July 1981 and August 1983 there were 1,821 fraud hearings conducted by administrative law judges, who are employed by the Department of Social Services. In 1,617 of these situations the hearings officers found evidence of fraud, ordered the imposition of disqualification penalties, and that allotments be reduced.

As a result of the enhanced funding for fraud investigations, our department entered into a contract with the Prosecuting Attorneys' Association which expedites fraud referrals for prompt legal action. This contract began in October of 1982 and since that time more than 3,000 cases have been referred to them. Of this number, about 1,800 included a food stamp case. In the 1,800 cases where food stamps were involved, 1,200 were resolved without court action but through repayment agreements with appropriate disqualification penalties and 270 were successfully prosecuted for welfare fraud.

Michigan has not hesitated to use the tools made available to us to protect program integrity. However, it should be noted that the vast majority of successful fraud proceedings have been because households have executed two or more ATP documents in a month. Indeed, more than 80 percent of the successful administrative fraud hearings have been for this reason. As on-line issuance continues to expand, though, we expect that this cause of program misuse will continue to diminish and so will the need for the very costly administrative proceedings against individuals.

In connection with further legislative antifraud initiatives, we recently received from Senator Helms a "summary of provisions." There has not been adequate time to consider all of the specifics contained in this material,

but we will be responding to the letter very shortly with detailed comments. It would, however, appear that a number of these preliminary ideas would place costly mandatory additional burdens on state agencies as well as recipients. Moreover, it has been our experience, and other states as well, that program integrity measures that are devised by states are the most effective both in terms of cost considerations and their results.

Finally, no statement by a state food stamp administrator would be complete without pleading that the food stamp program be afforded a period of stability. It has been the subject of probably more amendments than any other domestic legislation over the past four or five years, which tends to conflict with our mutual goal of reducing errors and assuring that benefits are delivered at the lowest possible cost.

Monthly Reporting and Retrospective Budgeting

In recent months, state welfare commissioners and food stamp administrators have been urging that the mandatory monthly reporting and retrospective budgeting policy be made optional with states. As a partial response to these requests, Congress extended for 90 days the October 1, 1983 deadline. The extension, however, does not make the basic problam disappear -- that problem being that such systems are not universally effective and it appears that they may increase administrative expenses.

In May of 1982, Michigan implemented monthly reporting/retrospective budgeting for all food stamp households except those specifically excluded by law. This means that we receive, every month, more than 370,000 reports out of a total food stamp caseload of about 450,000.

The materials that follow summarizes our experiences with monthly reporting and retrospective budgeting.

. Monthly reporting drastically revises the way business is done. Workers must become generic workers, i.e., learn all programs, in order to properly process the report forms. All work becomes structured around receipt, logging, and timely processing of report forms. The increased workload required either more workers, increased clerical staff or other relief,

such as, longer certification periods or "protected time," or neglect of other duties.

- Monthly reporting institutionalizes the reporting process for clients. They are reminded of the requirement every month, and indeed, penalized by case closure for not reporting. In addition, workers are not relieved from processing changes which are reported outside of the monthly cycle. However, the process causes depersonalization since workers have less time to communicate with recipients and they may get the impression that the only interest the worker has in them is concerning the limited information on the report form. In short, monthly reporting is no substitute for a well-managed recertification system.

- The percentage of cases closed is high in the initial two months, but drops as the recipients become familiar with the system. The overall closure rate is now less than two percent of cases required to report. In our experience about 35 percent of closed cases reapplied and were eligible the month after closure for nonreporting. Therefore, we instituted a reinstatement process so that these households may submit a complete form the month after it is due rather than going through the entire application process. A reinstatement policy enables benefits to be delivered without interruption and reduces the "revolving door" effect.

- In devising monthly reporting for that portion of the caseload which does not receive cash assistance, we excluded elderly and disabled households which did not have earned income as well as all migrants. This appears to be a good idea. Non-cash assistance food stamp households comprise 27 percent of the Michigan caseload that is required to report and 70 percent of them report changes in nine categories. The closure rate for nonreporting is 11 percent for non-cash assistance food stamp cases versus three-tenths of one percent for cash assistance cases, and the incidence of cases with earned or fluctuating earned income is higher than for case assistance/food stamp households. Thus, it would seem that a targeted approach to certain types of cases would be more productive than a blanket requirement and states are in the best position to determine specific target groups.

- Quality Control data is inconclusive, therefore, it is impossible to estimate what the program savings due to monthly reporting because of reduced errors might be. Statewide misissuance rates resumed their downward trend after going up when the 1981 amendments were implemented. Thus, even though errors for failure to report went down as mentioned earlier, the reduction was not significant in terms of misspent funds because this was not the major error category. The major error category continues to be household failure to report correct information at case opening or at recertification. This error accounts for 35 percent to 50 percent of misissued coupons and it is not addressed by monthly reporting. Again, and drawing from our experience, it would seem that requiring newly opened cases to report for the first few months after case opening would be one group of cases that we would insist upon reporting.

Retrospective Budgeting

Retrospective budgeting was intended to bring more accuracy to the budgeting process for food stamps and to bring food stamp budgeting more into line with AFDC. As conceived, retrospective budgeting meant that information about a household's circumstances for a specific past month would be used to determine the amount of benefits for a corresponding future month. For example, a household would report its April circumstances in May and this information would be used to determine benefits for June. This is a very simple policy to understand and administer but it does not address need.

However, when the final policy was developed by HHS and USDA this simple policy was modified, for both worthy and dubious reasons, until it has become so convoluted that it provides no advantage to any group. The following points illustrate the problem.

- Both agencies realized that people usually apply for assistance because there has been a drastic change in their circumstances, e.g., loss of a job, spouse, etc. For this reason retrospective budgeting in the initial months of eligibility would be extremely unfair. Thus, both programs allow for prospective budgeting in the initial months. This is a good modification, unfortunately food stamp and cash assistance cases are not always opened the same month, therefore, the same household may be in

different budgeting modes for each program.

- The federal agencies realized that if a strict retrospective method was applied, households would receive benefits for a period of time after resuming work or experiencing another change which results in ineligibility. Thus, both programs require a prospective eligibility determination whenever a change is reported. Benefits, of course, are based on retrospective information. This means that the agency must complete two budgets for each program for every change which does not result in ineligibility. For households it means that their cases are closed quickly if they do not pass the determination, but their benefits are never adjusted early for a change which causes increased need.

- HHS has determined that retrospective budgeting applies only to income and expenses associated with producing income -- factors related to need (household size, shelter costs) are prospected. Food stamp policy requires retrospection of all factors (except household size) when determining benefits.

- Both agencies realized that it would be unfair to continue counting income which stopped in the first two months of eligibility when completing budgets based on those months, so this income is not counted. However, once this "grace" period is passed, income is always counted retrospectively. For example, in an ongoing case, if two week's income was received in April and then the job stopped, this income is used to determine benefits for June. May benefits would have been based on March income. The result is that the household has income counted for two months after it stopped.

- Let me provide one more example of the effect of this mixed policy on recipients. Mr. X loses his job and applies for food stamps; his unemployment will begin the month after he applies and he will receive three checks. These three checks are prospected and he will be ineligible, but only because it happens to be a three-check month. Thus, Mr. X receives his first month's benefits based on his last paycheck, no benefits for the second month, benefits for the third month based on zero income (first month retrospected, but we do not count terminated income), and no benefits in

the fourth month. Mr. X receives no benefits in the fourth month because we retrospectively determine that the three checks from the second month make him ineligible, even though he will only receive two checks and we have already denied him benefits for the second month based on this same income. Thus, Mr. X's benefits bear absolutely no relationship to his circumstances or needs.

In addition, there are other minor rules which provide exceptions to retrospective budgeting in order to address changes caused by members entering or leaving the household, and to attempt to mesh the food stamp and AFDC budgeting process. As a result, it may be necessary to complete as many as four budgets based on three months information to accurately reflect a change in circumstances in a joint food stamp/AFDC case.

In recent months more data has become available from pilot MRRB programs. These data all seem to show that monthly reporting and retrospective budgeting do not save funds, generally administrative costs increase, the paperwork burden placed on local office staffs greatly increases, and to date, at least, there have been no significant decreases in quality control error rates. The most important aspect of retrospective budgeting, however, is that it works a severe hardship on clients because it does not recognize or meet current needs.

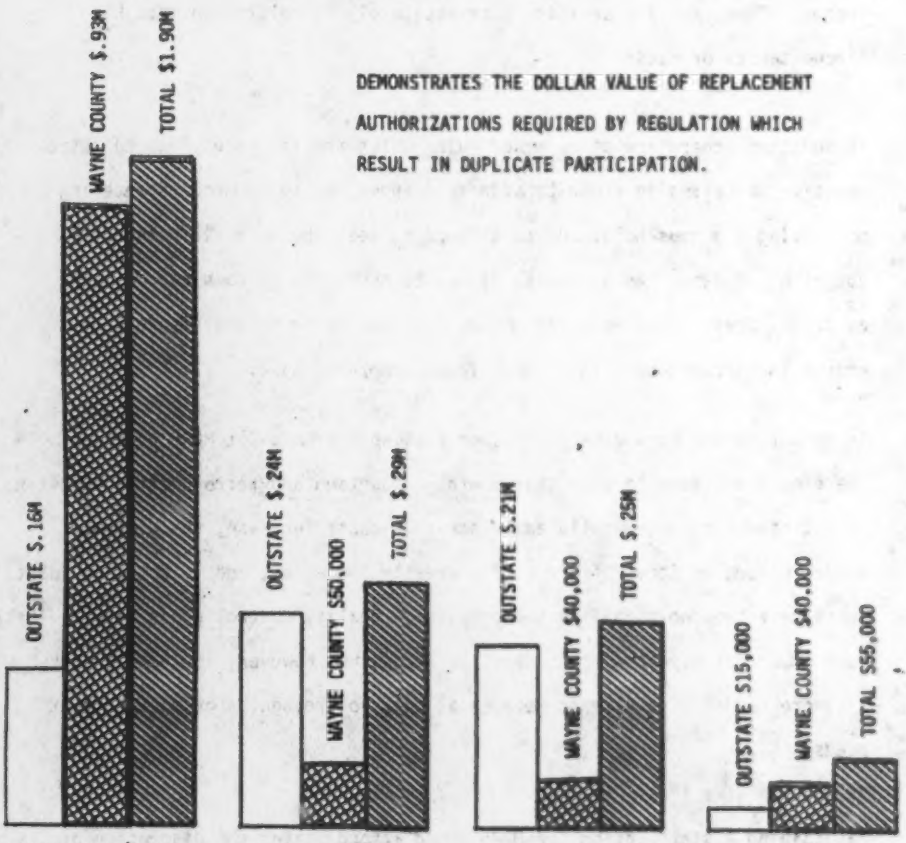
Maintaining a state option for MRRB would afford states the discretion of where to use it and be able to target it on the households that have particular volatile circumstances. If given the opportunity to design an effective means of monitoring caseload activity, states will be able to reduce paperwork and inequities on low-income households.

29-880 O—84——5

EXHIBIT A

PROGRAM LOSS REDUCTION BY CONVERSION TO ON-LINE ISSUANCE

DEMONSTRATES THE DOLLAR VALUE OF REPLACEMENT AUTHORIZATIONS REQUIRED BY REGULATION WHICH RESULT IN DUPLICATE PARTICIPATION.



FISCAL YEAR 1981	FISCAL YEAR 1982	FISCAL YEAR 1983	FISCAL YEAR 1984 PROJECTED
ATP CARD: 16 COUNTIES 77% OF CASES	ATP CARD: 15 COUNTIES 32% OF CASES	ATP CARD: 8 COUNTIES 14% OF CASES	ATP CARD: 0 COUNTIES
ON-LINE: GENESEE PILOT 5% OF CASES	ON-LINE: 2 COUNTIES 50% OF CASES	ON-LINE: 9 COUNTIES 69% OF CASES	ON-LINE: 17 COUNTIES 82% OF CASES

MICHIGAN DEPARTMENT
OF SOCIAL SERVICES

FOOD STAMP PROGRAM
ON-LINE ISSUANCE SYSTEM

AGNES M. MANSOUR, DIRECTOR

MICHIGAN FOOD STAMP ON-LINE ISSUANCE SYSTEM

I. Major Characteristics

A. Plastic card issued once rather than monthly ATP issuance.

B. Immediate issuance reconciliation and updating of central data base.

C. Verifies participation status at issuance site.

D. Virtually eliminates duplicate participation.

E. Significantly reduces field office workload for replacements, tracking erroneous issuances, etc.

F. Increased priority on food stamp activities to ensure timely updates.

II. Cost Savings - Avoidance

A. Since 1981, over $1.8 million savings through reduction of excessive participation.

B. Administrative cost savings of $2.4 million in postage and transaction fees since 1981.

C. Cost avoidance of approximately $1.2 million since 1981 in staff, forms, replacement activity, and automated data processing.

D. In summary, savings and cost avoidance realized from the system is projected to be $5.4 million.

III. Implementation and Expansion Schedule

A. Implemented in Wayne County in September 1981.

1. 190,000 households.

2. 7 issuance agents, 30 issuance sites, $1.08 average transaction fee.

B. Expanded between September 1981 and August 1982 in four additional urban counties.

1. 48,000 households.

2. 4 issuance agents, 10 issuance sites, $0.90 average transaction fee.

C. Expanded in 1983 in four additional urban counties.

1. 44,000 households.

2. 4 issuance agents, 8 issuance sites, $0.72 average transaction fee.

D. To be expanded in 1984 in eight additional urban counties.

1. 61,000 households.

ON-LINE ISSUANCE CONVERSION SCHEDULE

COMPLETED:

COUNTY	CASELOAD SIZE	DATE IMPLEMENTED
WAYNE	190,000	September 1, 1981
GENESEE	27,000	December 1, 1981
BERRIEN	9,000	August 1,1982
KENT	14,000	August 1, 1982
MACOMB	15,000	August 1, 1982
OAKLAND	23,000	July 1, 1983
MUSKEGON	8,000	August 1, 1983
WASHTENAW	10,000	September 1, 1983
BAY	6,000	October 1, 1983

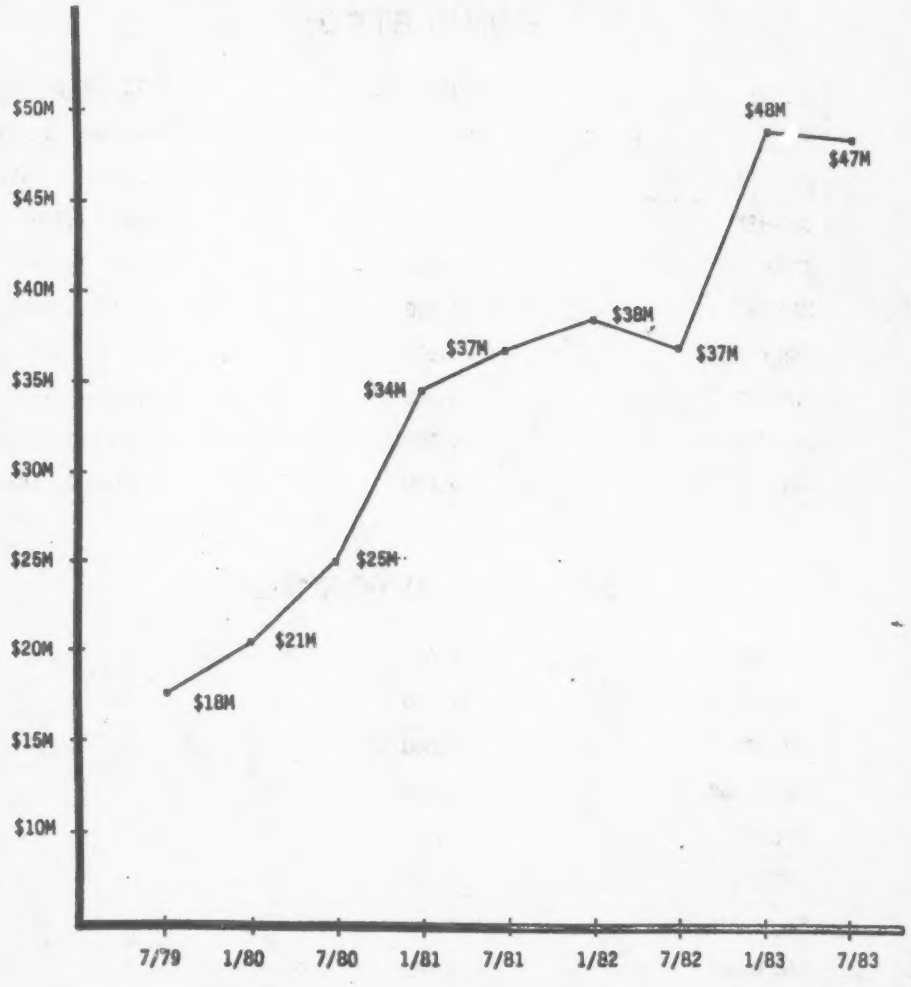
SCHEDULED FOR 1984:

CALHOUN	8,000
INGHAM	11,000
JACKSON	6,000
KALAMAZOO	8,000
MONROE	4,000
SAGINAW	14,000
ST. CLAIR	6,000
VAN BUREN	4,000

MONTHLY FOOD STAMP ISSUANCE

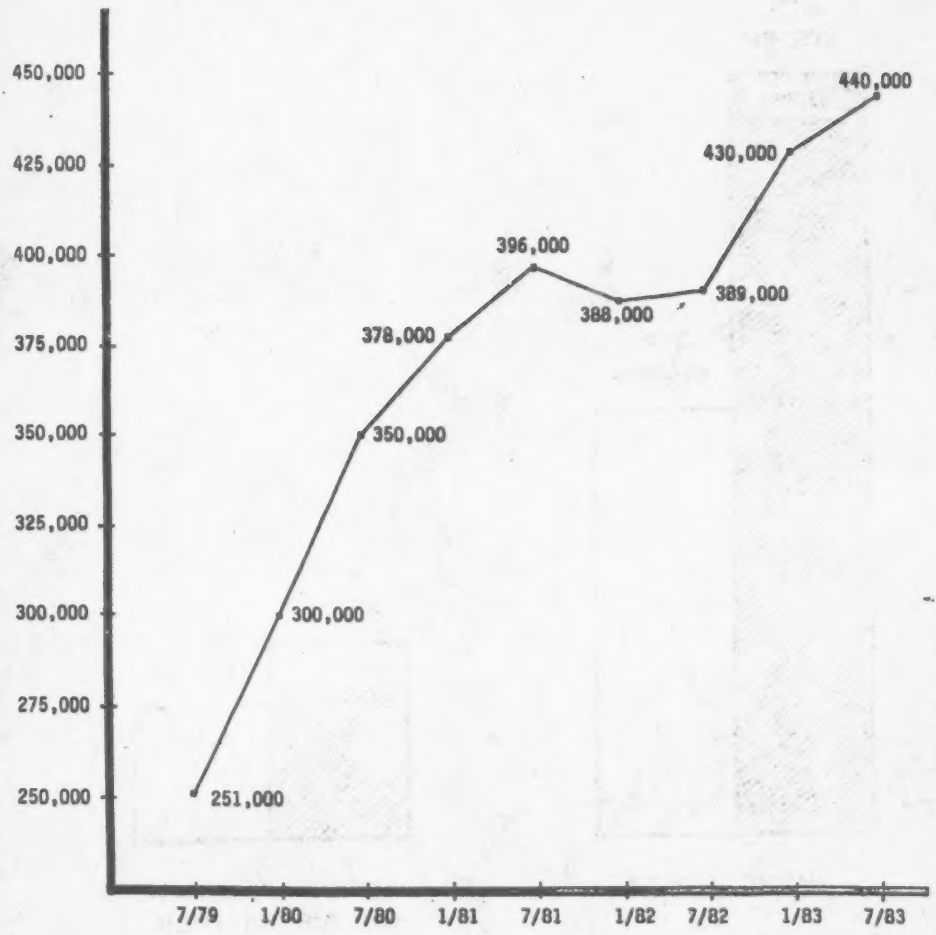
(IN MILLIONS)

JULY 1979 – JULY 1983

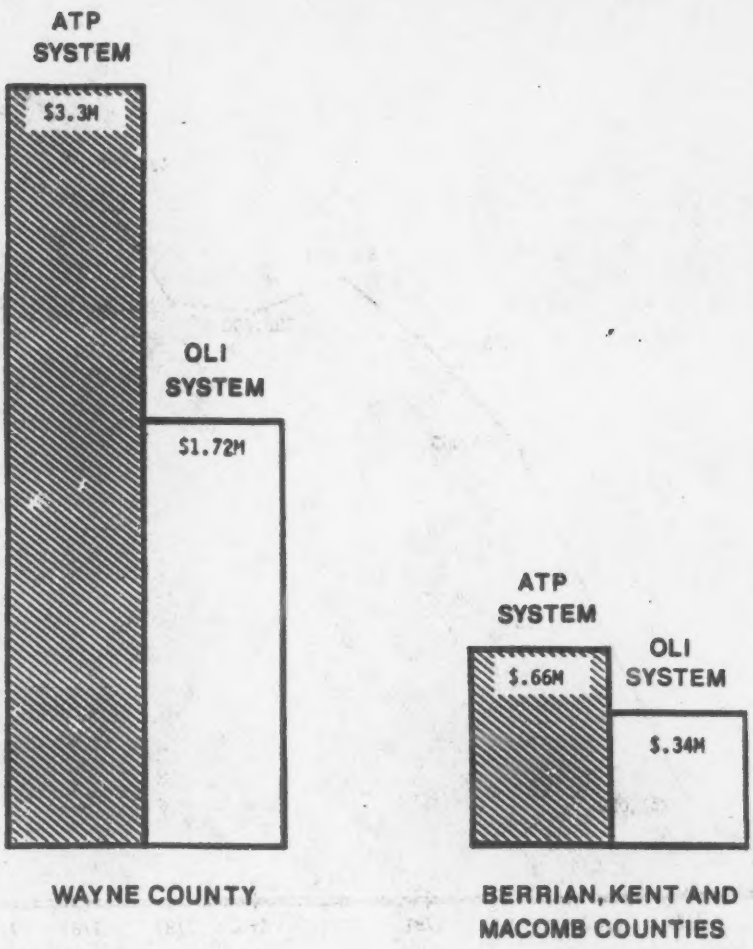


FOOD STAMP CASELOAD

JULY 1979 - JULY 1983



ANNUAL ADMINISTRATIVE COST SAVINGS AND AVOIDANCE



PROJECTIONS BASED UPON COST SAVINGS IN POSTAGE AND TRANSACTION FEES AND COST AVOIDANCE IN STAFFING, FORMS, REPLACEMENT ACTIVITY AND DATA PROCESSING.

TESTIMONY OF
DONALD B. ROARK, PH.D.
COMMISSIONER
MISSISSIPPI DEPARTMENT OF PUBLIC WELFARE
AND
CHAIRMAN
FOOD STAMP COMMITTEE
NATIONAL COUNCIL PUBLIC WELFARE ADMINISTRATORS

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE, MY NAME IS DONALD B. ROARK. I AM COMMISSIONER OF THE MISSISSIPPI DEPARTMENT OF PUBLIC WELFARE. I ALSO HAVE THE PRIVILEGE OF SERVING AS CHAIRMAN OF THE FOOD STAMP COMMITTEE OF THE NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS.

ON BEHALF OF THE APPROXIMATELY 25% OF MISSISSIPPI'S POPULATION WHO RECEIVE FOOD STAMPS, AND ON BEHALF OF THE CHIEF STATE EXECUTIVES RESPONSIBLE FOR ADMINISTERING THE FOOD STAMP PROGRAM, I APPRECIATE THIS OPPORTUNITY TO SPEAK TO YOU THIS MORNING ON WHAT THE IMPACT HAS BEEN OF LEGISLATIVE AND REGULATORY POLICY CHANGES DESIGNED TO REDUCE FRAUD, WASTE, AND ABUSE IN FOOD STAMPS. THIS SUBCOMMITTEE HAS ALWAYS EAGERLY SOUGHT THE PERSPECTIVE OF THOSE OF US ON THE OPERATING END OF THE PROGRAM, WITH THE AIM OF ENSURING THE WORK-ABILITY OF FEDERAL LEGISLATION. I HOPE THE COMMENTS I MAKE TODAY WILL ABLY SERVE THIS PURPOSE, THROUGH CONSTRUCTIVE SUGGESTIONS TO YOU TO STABILIZE AND FURTHER IMPROVE THE FOOD STAMP PROGRAM.

A SLUGGISH ECONOMY AND BUDGET DEFICITS THE PAST SEVERAL YEARS HAVE SERVED TO HIGHLIGHT THE NEED FOR PROGRAM REFORMS DESIGNED TO IMPROVE THE ADMINISTRATION AND COST EFFECTIVENESS OF FOOD STAMPS WHILE PRESERVING THE NATION'S COMMITMENT TO FEED THE POOR. SINCE THE 1977 REFORM OF FOOD STAMPS, NUMEROUS EFFORTS HAVE BEEN MADE TO COMBAT FRAUD, ABUSE, AND WASTE IN THIS LARGE, COMPLEX PROGRAM. THE SIGNIFICANT ATTENTION AND HIGH LEVEL OF RESOURCES DEVOTED TO ELIMINATING THESE PROBLEMS HAVE SIGNIFICANTLY IMPROVED THE ABILITY OF FEDERAL AND STATE ADMINISTRATORS TO DETER AND DETECT PROGRAM VIOLATIONS. IN ADDITION, THE SUCCESS THAT HAS BEEN ACHIEVED IN THIS AREA, HAS BEGUN TO IMPROVE THE PROGRAM'S IMAGE IN THE PUBLIC EYE.

NO SINGLE CHANGE OR REQUIREMENT CAN BE GIVEN ALL THE CREDIT FOR THE REDUCTION OF FRAUD, ABUSE, AND WASTE WE ARE WITNESSING IN THE FOOD STAMP PROGRAM. WHAT IS HAPPENING IS THE CUMLATIVE

EFFECT OF SOPHISTICATED AND INNOVATIVE APPLICATIONS BY THE STATES OF INFORMATION PROCESSING, PUBLIC EDUCATION AND AWARENESS, AND COOPERATION BETWEEN THE THREE LEVELS OF GOVERNMENT TO ENSURE THAT PROGRAM BENEFITS ARE USED AS INTENDED BY CONGRESS.

PROGRAM MANAGEMENT

AS CHAIRMAN OF THE STATE WELFARE ADMINISTRATORS' FOOD STAMP COMMITTEE, I HAVE THE PLEASURE OF WORKING CLOSELY WITH PROGRAM MANAGERS FROM NEARLY EVERY STATE. THE COMMITTEE SERVES AS A CLEARINGHOUSE FOR DISSEMINATING INFORMATION AND IDENTIFYING AND RESOLVING ISSUES OF MUTUAL CONCERN. THROUGH OUR WORK FOR THE COUNCIL, THE STATE ADMINISTRATORS HAVE OFTEN SUPPORTED OR PROPOSED PROGRAM CHANGES WE BELIEVED WOULD IMPROVE THE OVERALL PROGRAM PERFORMANCE. WITHOUT DOUBT REFORMS ENACTED OVER THE LAST SEVERAL YEARS HAVE GREATLY ENHANCED OUR ABILITY TO PROVIDE NUTRITION ASSISTANCE TO THE NEEDY EFFICIENTLY AND EFFECTIVELY.

SPEAKING AS MISSISSIPPI COMMISSIONER, AND FOR THE NATION'S WELFARE ADMINISTRATORS, I COME TODAY TO URGE THAT YOU AND YOUR COLLEGUES IN CONGRESS MAKE AS FEW CHANGES AS POSSIBLE IN THE FOOD STAMP PROGRAM. IN OUR JUDGMENT, WHAT THE FOOD STAMP PROGRAM NEEDS MOST OF ALL NOW AND DESERVES, IS STABILITY -- A PERIOD OF REST FROM LEGISLATIVE AND REGULATORY REFORM.

AS ADMINISTRATORS WE KNOW THERE IS ALWAYS SOME ASPECT OF THE PROGRAM THAT COULD STAND IMPROVEMENT. HOWEVER, IT IS THE COUNCIL'S BELIEF THAT ANOTHER ROUND OF CHANGES, ADDING TO PROGRAM ADMINISTRATIVE REQUIREMENTS AT THIS POINT WOULD PREVENT US FROM GETTING THE MOST OUT OF THE MEASURES ALREADY ENACTED. HOWEVER, WE ALSO BELIEVE THAT SOMETHING CAN AND SHOULD BE DONE TO ALLEVIATE CERTAIN PROBLEMS WHICH CAUSE UNNECESSARY ADMINISTRATIVE COSTS AND BURDEN. THESE RELATE TO:

(1) UNREALISTIC IMPLEMENTATION SCHEDULES;

(2) MONTHLY REPORTING AND RETROSPECTIVE BUDGETING; AND

(3) UNRELIABLE PROGRAM PERFORMANCE MEASUREMENTS.

OVER THE LAST TWO AND A HALF YEARS, HASTY IMPLEMENTATION OF CONGRESSIONALLY MANDATED CHANGES HAS ACTUALLY INCREASED COSTS AND ERRORS. THE TIME AVAILABLE TO STATES FOR IMPLEMENTATION DIRECTLY AFFECTS THE STATES' ABILITY TO FULLY IMPLEMENT, LET ALONE EVALUATE

PROGRAM CHANGES. USDA'S FREQUENT USE OF INTERIM FINAL RULEMAKING THAT PRECLUDES PUBLIC INVOLVEMENT IN THE REGULATORY PROCESS, FORCES STATES TO TAKE ILL-ADVISED SHORT-CUTS IN IMPLEMENTATION. FAST TRACK IMPLEMENTATION PREVENTS FULL AND THOROUGH STAFF RETRAINING, POLICY ANALYSIS AND REWORKING, ADEQUATE COMPUTER REPROGRAMMING, RECIPIENT RE-EDUCATION, AND IN TURN IS THE ROOT CAUSE OF MANY AVOIDABLE ERRORS THAT A MORE REASONABLE APPROACH WOULD PREVENT.

MONTHLY REPORTING AND RETROSPECTIVE BUDGETING

MONTHLY REPORTING AND RETROSPECTIVE BUDGETING (MR/RB) HAS NOT BEEN THE PANACEA THE ADMINISTRATION HAD HOPED. IN 1980, CONGRESS ENACTED LEGISLATION MAKING MONTHLY REPORTING AND RETROSPECTIVE BUDGETING SYSTEMS A STATE OPTION IN THE FOOD STAMP PROGRAM. HOWEVER, IN 1981, CONGRESS REVERSED GEARS AND -- AT THE REQUEST OF THE ADMINISTRATION -- MADE THE USE OF THESE SYSTEMS A MANDATORY FEDERAL REQUIREMENT (RATHER THAN A STATE OPTION) AFTER OCTOBER 1, 1983.

TODAY, THIS REQUIREMENT IS CAUSING SERIOUS PROBLEMS FOR MANY STATES ACROSS THE COUNTRY. NUMEROUS STATES HAVE FOUND THESE SYSTEMS TO BE COST-INEFFECTIVE AND EXPENSIVE TO ADMINISTER. FINDINGS RECENTLY MADE AVAILABLE FROM A NUMBER OF FEDERALLY SPONSORED DEMONSTRATION PROJECTS PROVIDE HARD RESEARCH DATA TO CONFIRM THAT MONTHLY REPORTING AND RETROSPECTIVE BUDGETING SYSTEMS GENERALLY DO NOT REDUCE ERRORS -- BUT DO INCREASE ADMINISTRATIVE COSTS AND RESULT IN THE DENIAL OF BENEFITS FOR SOME NEEDY FAMILIES.

IN RECENT MONTHS, 32 STATE PUBLIC WELFARE ADMINISTRATORS SIGNED A MAILGRAM. THE TEXT OF THAT MAILGRAM IS ATTACHED TO MY TESTIMONY. MANY OTHER STATE WELFARE DIRECTORS ARE ALSO OPPOSED, BUT COULD NOT BE REACHED IN TIME TO AFFIX THEIR SIGNATURES, ASKING CONGRESS TO MAKE MONTHLY REPORTING AND RETROSPECTIVE BUDGETING A STATE OPTION RATHER THAN A MANDATE IMPOSED BY THE FEDERAL GOVERNMENT. THESE STATES HAVE ASKED TO BE TRUSTED WITH THE FLEXIBILITY TO UTILIZE MONTHLY REPORTING WHERE IT WOULD BE EFFECTIVE -- BUT TO DIRECT THEIR RESOURCES TOWARD OTHER MANAGEMENT TECHNIQUES WHERE OTHER APPROACHES ARE LIKELY TO BE MORE SUCCESSFUL IN REDUCING ERRORS AND COSTS.

As a partial response to these state requests, the Congress on September 30 placed a provision in the Continuing Resolution which extended for 90 days the October 1, 1983 deadline on which the mandatory federal requirement takes effect. However, a 90 day extension will not make the basic problem disappear -- the problem that monthly reporting and retrospective budgeting systems simply are not effective in some areas and do increase administrative costs and paperwork burdens.

In addition, since the September 30 consideration of this issue, major new evidence on this matter has become available. Results have just become available from the only demonstration project on monthly reporting and retrospective budgeting ever conducted in the Food Stamp Program, a major pilot project in Illinois. The results show that not only did monthly reporting fail to reduce error rates or benefit costs in the Food Stamp Program, but benefit costs actually increased by 8%. Even more shocking, administrative costs skyrocketed, rising 20%. The research notes that these high added costs associated with monthly reporting were linked to a series of implementation problems, problems that could occur in other areas as well unless monthly reporting systems (which are very complex to operate) are thoroughly tested and "de-bugged" first. The study found that even if the system had operated without problems, it still would have caused increases in administrative costs, and that there is not evidence to show that any offsetting benefit savings would be realized.

Testifying before this Subcommittee, in March 1981, the late Jack Dempsey said, "Mandatory retrospective accounting presumes a uniformity of administration and household circumstances that simply does not exist." State experiences and the information from the limited studies of MR/RB indicate it can be a wasteful mis-use of program dollars. In May of this year, former Senator Henry Bellmon, who served on this committee, and was then Oklahoma Director of Human Services said: "While Oklahoma has had some success with monthly reporting and retrospective budgeting in AFDC, it is our opinion the same process will not be effective in the Food Stamp Program and will, in fact, be a costly and difficult administrative process. Beyond the question of administration,

RETROSPECTIVE BUDGETING HAS CAUSED SOME UNNECESSARY HARDSHIP FOR RECIPIENTS BECAUSE IT COMPUTES CURRENT BENEFITS ON INCOME RECEIVED ONE OR TWO MONTHS AGO WHETHER OR NOT THEIR INCOME IS STILL BEING RECEIVED."

THE STATES' OPPOSITION TO MANDATORY MR/RB IS NOT A RELUCTANCE TO INVEST STATE FUNDS IN REDUCING FRAUD. AS PUBLIC ADMINISTRATORS, WE ARE RESPONSIBLE FOR THE ORDERLY AND EFFICIENT OPERATION OF THE PROGRAMS UNDER OUR JURISDICTION PAID FOR BY TAX DOLLARS. FRAUD, WASTE AND ABUSE IN THESE PROGRAMS IS A MAJOR CONCERN BECAUSE IT IS SYMPTOMATIC OF PROGRAMS OUT OF CONTROL. IN OUR VIEW, MR/RB DOES NOT CONSTITUTE AN EFFECTIVE DETERRENT TO FRAUD.

STATES NEED TO KNOW NOW WHAT CONGRESS' INTENTIONS ARE IN THIS AREA. STATES CANNOT WAIT 90 DAYS AND FIND OUT AT THE LAST MINUTE WHETHER CONGRESS WILL EXTEND THE MANDATORY DEADLINE AGAIN. PREPARATIONS TO IMPLEMENT THIS PROVISION, OR TO MOVE TO ALTERNATIVE MANAGEMENT TECHNIQUES, MUST BE MADE NOW IN MANY STATES. WE BELIEVE THE DOLLARS AND SENSE CHOICE IS CLEAR. THE LAW SHOULD BE AMENDED TO RETURN MR/RB SYSTEMS TO THE "STATE OPTION" CATEGORY.

AFTER YEARS OF PILOT TESTING THESE SYSTEMS IN AFDC AND FOOD STAMPS, THERE IS NO EVIDENCE THAT THEY REDUCE ERRORS OR COSTS. MANY MEMBERS OF CONGRESS ARE FOND OF SAYING THAT SOME WELL-INTENTIONED SOCIAL PROGRAMS SIMPLY HAVE NOT WORKED AS INTENDED AND NEED TO BE ALTERED. MONTHLY REPORTING/RETROSPECTIVE BUDGETING SYSTEMS ARE EXAMPLES OF MANAGEMENT TECHNIQUES TO REDUCE ERRORS THAT, ALTHOUGH SIMILARLY WELL-INTENTIONED, ALSO HAVE NOT WORKED OUT.

CONGRESS, IN 1982, ADOPTED THE CHAIRMAN'S PROPOSAL FOR A GRADUATE ERROR RATE REDUCTION SYSTEM. THE SANCTIONS THAT WOULD BE LEVIED AGAINST THE STATES FOR FAILURE TO REACH THE ERROR RATE TARGETS WILL COST STATES MILLIONS OF DOLLARS -- MILLIONS OF DOLLARS THAT SHOULD BE SPENT PROVIDING SERVICES TO THE CITIZENS OF THE STATES.

THE COUNCIL REAFFIRMS ITS BELIEF THAT FINANCIAL PENALITIES ARE NOT NEEDED TO SPUR STATES TOWARDS BETTER PROGRAM MANAGEMENT. GOOD MANAGEMENT, WELL RUN AND COST EFFECTIVE PROGRAMS ARE IN THE STATES' INTEREST. CONSIDERABLE STATE RESOURCES HAVE BEEN AND CONTINUE TO

BE INVESTED IN PROGRAM IMPROVEMENT. HOWEVER, IF FISCAL SANCTIONS MUST BE INCLUDED AS AN INTEGRAL PART OF THE FOOD STAMP PROGRAM, A RELIABLE AND STATISTICALLY VALID MEANS OF ASSESSING ERRORS IS NEEDED IMMEDIATELY.

WE HAVE IDENTIFIED OVER THE YEARS THREE MAJOR WEAKNESSES OF THE CURRENT QUALITY CONTROL SYSTEM USED TO MEASURE PROGRAM ERRORS:

(1) IT DOES NOT PRODUCE VALID ESTIMATES OF REAL ERRORS;
(2) INFORMATION IS NOT PRODUCED IN A TIMELY FASHION TO PERMIT EFFECTIVE CORRECTIVE ACTION; AND
(3) STATES THAT HAVE PERFORMED WELL ARE OFTEN PENALIZED. ALTHOUGH USDA HAS RECENTLY PROPOSED REVISED QUALITY CONTROL RULES, WE BELIEVE THE STATES CONCERNS SHOULD BE FULLY RESOLVED BEFORE ANY MOVE TO PUBLISH THEM IN FINAL FORM. IF THE STATES ARE TO BE PENALIZED BASED ON MEASUREMENTS OF DUBIOUS VALIDITY, THEN THE STATES SHOULD ALSO HAVE AMPLE OPPORTUNITY TO COMMENT AND INPUT.

THE STATE ADMINISTRATORS HAVE PREPARED LEGISLATIVE LANGUAGE THAT WE BELIEVE WOULD PUT THE QUALITY CONTROL SYSTEM ON THE RIGHT TRACK BY CREATING A UNIFORM ERROR MEASURE SYSTEM FOR MEDICAID, AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) AND THE FOOD STAMP PROGRAM. OUR PROPOSAL WOULD REQUIRE A JOINT STUDY BY THE SECRETARY OF HEALTH AND HUMAN SERVICES AND THE SECRETARY OF AGRICULTURE CONCERNING THE CURRENT QC SYSTEM. WHILE THE STUDY IS BEING CONDUCTED, WE PROPOSE A SUSPENSION OF ALL FISCAL SANCTIONS. FOLLOWING THE COMPLETION OF THE REPORT AND STATE COMMENT, REGULATIONS WOULD BE DEVELOPED FOR THE FOOD STAMP PROGRAM MODIFYING THE CURRENT SYSTEM IN FAVOR OF A UNIFORM QC SYSTEM FOR INCOME SUPPORT PROGRAMS. IF ERRORS ARE TRUELY TO BE CONTROLLED, WE MUST BE CERTAIN THAT ERRORS ARE PROPERLY IDENTIFIED AND MEASURED.

FRAUD, WASTE AND ABUSE

THE REDUCTION AND ELIMINATION OF PROGRAM ABUSE IS A SPECIAL CONCERN TO STATE ADMINISTRATORS. WE BELIEVE, THAT COMBINED USE OF THE MANY PROVISIONS IN LAW DESIGNED TO MAKE THE PROGRAM LESS PRONE TO VIOLATIONS, IS HAVING A VERY POSITIVE EFFECT. OUR COMMITMENT TO THIS EFFORT IS NO LESS THAN OUR ONGOING BATTLE TO REDUCE PROGRAM ERRORS.

THE STATES HAVE DEVISED SOME VERY UNIQUE PROGRAMS TO COMBAT PROGRAM ABUSE. FEDERAL FINANCIAL ASSISTANCE THROUGH 75 PERCENT MATCHING FUNDS FOR FRAUD REDUCTION EFFORTS HAS HELPED MAKE IT POSSIBLE FOR STATES TO IMPLEMENT AGGRESSIVE PROGRAMS. IN ADDITION, ALLOWING STATES TO RETAIN A PERCENTAGE OF COLLECTED CLAIMS OVER-ISSUANCES HAS CERTAINLY BEEN AN INCENTIVE FOR GREATER EFFORTS IN THIS AREA. STATES HAVE USED THESE FUNDS TO UPGRADE AND ENLARGE THEIR INVESTIGATIVE STAFFS. ELIGIBILITY WORKERS ARE ALSO TRAINED IN INVESTIGATIVE TECHNIQUES MAKING THEM AN INTEGRAL PART OF ANTI-GRAUD PROGRAMS. AS A RESULT, MOST STATES CAN REPORT THAT COLLECTIONS HAVE INCREASED ALMOST TEN TIMES.

SEVERAL STATES HAVE INCREASED THEIR COMPUTER CAPABILITY AND THUS ARE BETTER ABLE TO MAINTAIN FILES ON PROGRAM VIOLATORS AND PREVENT THEM FROM RECEIVING BENEFITS SIMPLY BY MOVING AROUND THE STATE. STATUTORY CHANGES SUCH AS ALLOWING STATES TO REDUCE HOUSE-HOLD ALLOTMENTS TO COLLECT OVERPAYMENTS, STIFFER DISQUALIFICATION PENALTIES FOR HOUSEHOLDS AND RETAILERS HAVE IMPROVED THE PROGRAM ADMINISTRATORS' ABILITY TO DETER AND PREVENT REPEAT ABUSES. COMPUTER MATCHING IS ANOTHER VALUABLE TOOL. IN MOST INSTANCES THE STATE CAN OBTAIN TIMELY INFORMATION USED TO VERIFY CLIENT PROVIDED INCOME REPORTS. AS WE BECOME MORE PROFICIENT IN THE USE OF COMPUTER MATCHES BY TARGETING SELECT CATEGORIES OF RECIPIENTS OR MAKING IT A ROUTINE PART OF RECERTIFICATION, MORE OVERISSUANCES WILL BE RECOVERED, AND WE WILL MAKE IT LESS ATTRACTIVE FOR CLIENTS TO MAKE THAT INITIAL FALSE REPORT.

THANK YOU FOR YOUR ATTENTION TO OUR CONCERNS. THE COUNCIL REMAINS COMMITTED TO ASSISTING THIS COMMITTEE IN THE IMPROVEMENT OF THE PROGRAM.

TO: The Honorable Margaret Heckler
Secretary, U.S. Department of
Health & Human Services
200 Independence Avenue, SW
Washington, DC 20201

The Honorable John R. Block
Secretary, U.S. Department of
Agriculture
14th Street & Independence Avenue, SW
Washington, DC 20250

As state public welfare administrators, we are requesting that you support our efforts to amend existing statutes pertaining to mandatory implementation of Monthly Reporting and Retrospective Budgeting (MR/RB). It is the consensus of the states that MR/RB should be a state option rather than a mandatory administrative process.

MR/RB can be costly to implement, especially in light of limited federal and state resources. Additionally, the problems experienced to date in implementing AFDC caseloads will increase substantially as states begin to include their Food Stamp caseloads in the MR/RB process.

We are extremely concerned about the effect of MR/RB on our error rates. We had already achieved considerable success in curbing our error rates prior to the imposition of mandated MR/RB. Now, at a time when we are faced with diminishing resources and the possibility of fiscal sanctions, we are forced to use an unproven alternative. It is our contention that we must be allowed to administer the AFDC and Food Stamp programs in ways best suited to our varied caseload and administrative characteristics.

For the reasons above, it is the consensus of the states that the following legislative proposals be enacted:

- Make monthly reporting and retrospective budgeting optional to the states in AFDC and Food Stamps,
- Expand the waiver authority to permit compatibility among AFDC, Food Stamps and Medicaid,
- Place a moratorium on counting quality control errors caused by the implementation of MR/RB.

Copies of this telegram are being shared with key Congressional Leaders, in particular, members of the House Ways and Means, Senate Finance and House and Senate Agricultural Committees. We hope that you will actively support our position on these important issues.

Leon Frazer Alabama	David Pingree Florida	Donald Blinzenger Indiana	Leonard Levine Minnesota
Kenny Whitlock Arkansas	James Ledbetter Georgia	Michael Reagen Iowa	John LaFaver Montana
George Goldstein Colorado	Franklyn Sunn Hawaii	Robert Harder Kansas	George Albanese New Jersey
Stephen Heintz Connecticut	Thomas Purce Idaho	Joseph Gallant Massachusetts	Joseph Goldberg New Mexico
James Buford District of Columbia	Jeffrey Miller Illinois	Agnes Manoour Michigan	Cesar Perales New York
John Syria North Carolina	James Ellenbocker South Dakota	James O'Rourke Vermont	
John Cuddy Ohio	Sammie Lyn Puett Tennessee	Alan Gibbs Washington	
Henry Bellmon Oklahoma	Marlin Johnston Texas	Leon Ginsberg West Virginia	
John Crosscope, Jr. South Carolina	Andrew Gallegos Utah	Linda Reivitz Wisconsin	

GSH-83-10-19

Texas Department of Human Resources

State Headquarters Located at 706 Banister Lane
Mailing Address: P.O. Box 2960 • Austin, Texas 78769

COMMISSIONER
MARLIN W. JOHNSTON

BOARD MEMBERS
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Chairman, Houston
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Corpus Christi
THOMAS M. DUNNING
Dallas

October 12, 1983

The Honorable Robert Dole
United States Senate
Sub-Committee on Nutrition
Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Dole:

We are honored to be invited to testify before your committee about our efforts in fraud prevention and control. I apologize for being unable to testify personally because of involvement in a trial this week; however, I am confident that Mr. William Whalen, our director of special operations, will provide you accurate information about our operation.

We appreciate the opportunity for input and hope the information we share with you will be helpful.

Sincerely,

Gordon S. Hardy
Investigator General

GSH:alv

INTRODUCTION

The Texas Department of Human Resources (TDHR) is the state agency with responsibility for administering Aid to Families With Dependent Children (AFDC), food stamps, Medicaid, protective services for children and the aged, and other social services. The Office of the Investigator General (OIG) is a support division within the agency that was established in 1974 to protect the integrity of programs administered by the Department.

Our fraud prevention and control program is successful in Texas because we have the support of the Human Resources Board, Commissioner Marlin W. Johnston, and the executive staff. Their commitment to accountability in programs generates support from all the remaining staff. Recognizing that the Department clearly exists to provide services to eligible clients, we accept the responsibility for prevention and control of fraud, waste, and abuse.

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ORGANIZATION

The OIG employs 164 persons with 16 field units located in 12 metropolitan areas. The majority of our investigators were trained and experienced in law enforcement before joining our Department. The Division is directed by the investigator general who reports directly to the Department's commissioner. (An organization chart is included.)

RESPONSIBILITY FOR FRAUDULENT CASES

The OIG is responsible for providing investigative services to all agency programs. The majority of our effort is in the area of client fraud.

We work from a referral system and most of the suspect cases come from our Department's caseworkers and auditors. We recently installed a toll-free fraud hotline that is generating about 75 complaints per month from the public.

For several years our Department has routinely matched client rolls with Texas Employment Commission (TEC) wage reports on a quarterly basis. "Hit" reports are routed to caseworkers who compare wage data with information reported by clients and refer suspected fraud cases to the OIG for investigation. (A flow chart is included.)

Additionally, we have conducted successful computer matches of client rolls and mass transit authority employees in Houston; city, county, and federal employees in San Antonio; federal employees of the Red River Army Depot in Texarkana; and client rolls of New Mexico. We are currently working "hits" from a Texas--Louisiana match and computer programming is being done to match Texas and Oklahoma client rolls.

PROCEDURES

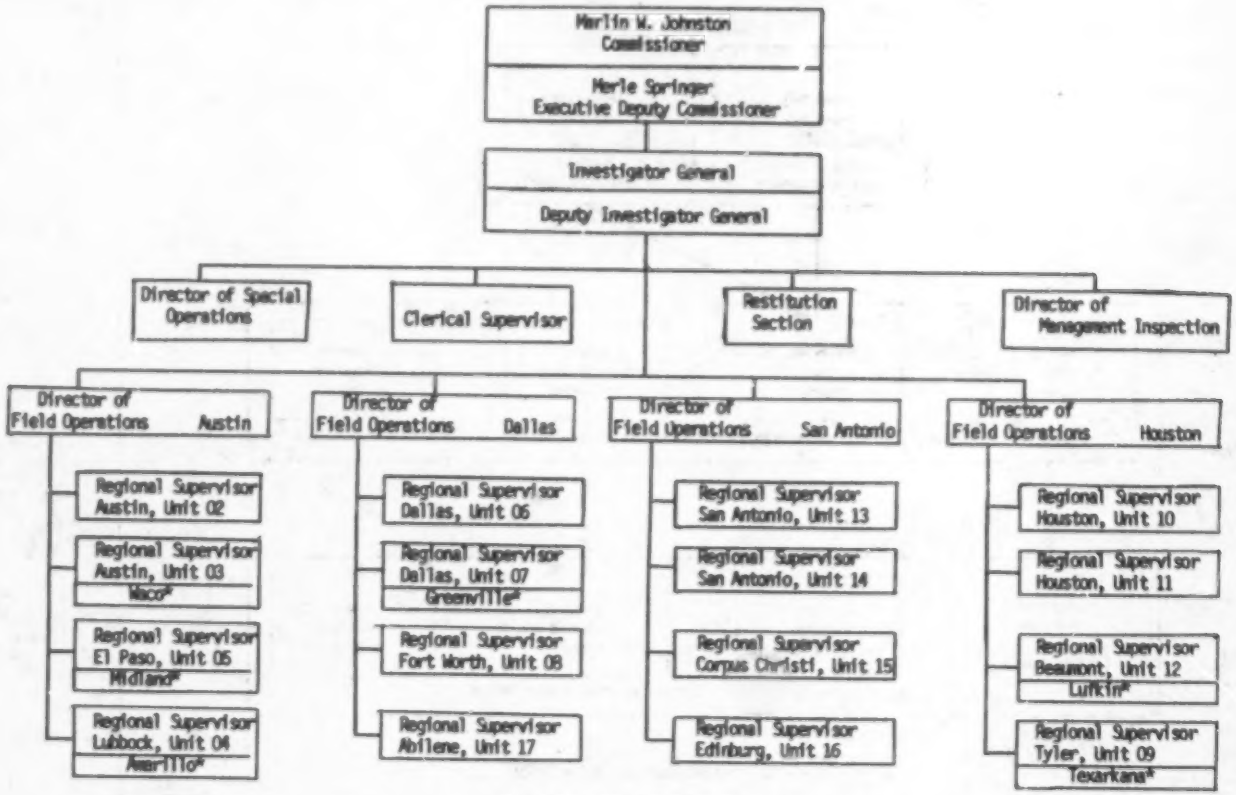
In an attempt to automate and enhance effectiveness, OIG has developed and implemented the following procedures.

- Automated Case Reports--Each office is equipped with a word processor. A standard format for investigation case reports has been established that allows the investigator to work through a report by selecting the appropriate paragraph and filling in the blanks with data relevant to that case. Speed and accuracy are improved because over half of the report is already typed. Also reports are more complete and easier to review in standard format.

- Telephone Administrative Disqualification Hearings--The Department's

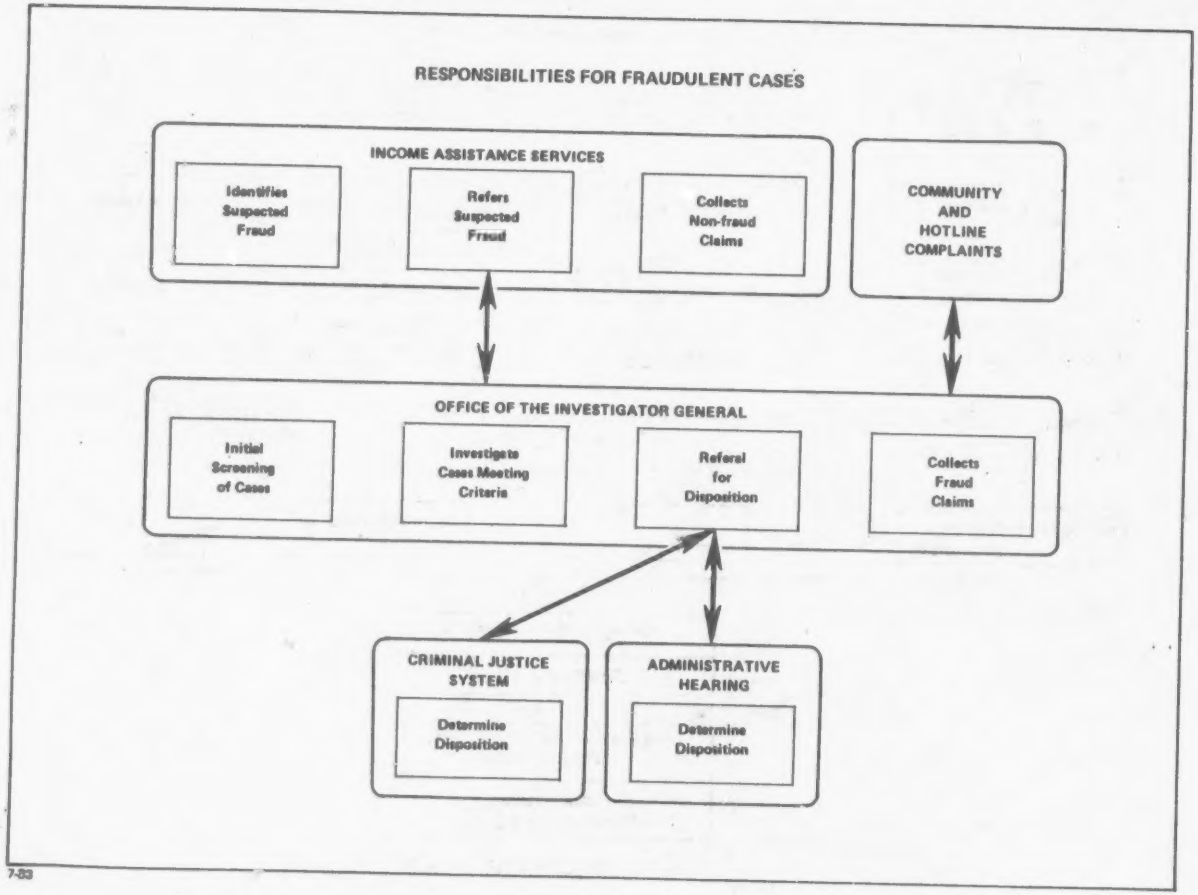
TEXAS DEPARTMENT OF HUMAN RESOURCES

OFFICE OF THE INVESTIGATOR GENERAL



*Subunit: One Investigator

August 1983


RESPONSIBILITIES FOR FRAUDULENT CASES
INCOME ASSISTANCE SERVICES
Identifies Suspected Fraud
Refers Suspected Fraud
Collects Non-fraud Claims
COMMUNITY AND HOTLINE COMPLAINTS
OFFICE OF THE INVESTIGATOR GENERAL
Initial Screening of Cases
Investigate Cases Meeting Criteria
Referal for Disposition
Collects Fraud Claims
CRIMINAL JUSTICE SYSTEM
Determine Disposition
ADMINISTRATIVE HEARING
Determine Disposition
7-83

hearing officers each have portable telephone speaker equipment. The investigator sends the hearing officer the investigation report and requests a hearing. The hearing officer travels to the location of the hearing, sets up the equipment and establishes telephone contact with the investigator. The hearing is conducted by the hearing officer with the client suspect present. The investigator's testimony is given by telephone. Clients have the right to request the investigator to be present. Savings are estimated to be $50,000 per year.

- Questioned Document Examiner/Dual Authorization to Participate (ATP) Cases--We receive referrals from our auditors when clients are suspected of falsely reporting their original ATP card was lost or stolen in order to receive duplicate (replacement) benefits. Since most of these cases are small dollar amounts, they are unpopular with most prosecutors. We use an expedited system to develop them for administrative disqualification hearings. We have a per case contract with a questioned document examiner who compares signatures on the original and replacement ATPs. A word processor standard format report is developed on cases with positive findings and hearings are conducted by telephone.

  To date two people (with ten hours per week word processor support) are averaging over 60 completed cases per month. They screen all suspect cases prior to referring them to the questioned document expert and are experiencing an 80 percent to 90 percent positive finding rate. Findings of intentional program violation are running 93 percent on these cases.

- Administrative Disqualification Hearings/Waiver of Attendance--The hearing waiver is used to allow the investigator to arrange restitution when the client suspect indicates they do not intend to attend an administrative disqualification hearing. The hearing officer reviews the facts in the case and makes a decision without having to travel. The client suspect may notify the hearing officer and attend the hearing if they change their mind.

  The waiver is used in about 40 percent of our cases. It is effective and useful in saving staff time and travel costs.

- Prosecutor Contracts for Case Rate Funding--The Department offers contracts to local prosecutors across the state for reimbursement of their costs in prosecuting food stamp violations. We have 81 contracts in force at present. Prosecutors are paid $250 for each uncontested conviction and $600 for each contested trial. The rate

was established by the Department's rate-setting section and is approved by the Human Resources Board so it can be changed without renegotiating each contract.

In fiscal year 1982 we had 783 court convictions. There were 1,719 court convictions in fiscal year 1983. This is an increase of 120 percent in fiscal year 1983.

RESTITUTION

Overissuances are pursued and tracked by a restitution section. Accounts are on computer so automated delinquency lists can be provided to prosecutors and probation officers. Letters to remind suspects they are delinquent are also automated. Suspects who are participating in the program can be set up for automated recoupment when necessary.

On October 1, 1983, we initiated a six-month pilot project in Harris County (Houston), to refer delinquent, inactive overissuance cases to a commercial collection agency. The contract fee is 30 percent of gross collections.

FOOD STAMP TRAFFICKING

Texas has a state statute that makes food stamp trafficking a criminal offense. We are not aware of any significant trafficking or organized racketeering problems in our area. Eight cases of trafficking violations were completed last fiscal year, the most notable being the purchase of a car from a used car dealer.

We have one covert trafficking investigation in progress now that we are unable to discuss for security reasons.

MAIL ISSUANCE

Texas exercises tight control over food coupons which are issued directly through the mail. At this time, less than three percent of total food stamp issuance in Texas is handled by direct mail issuance. Only households which meet one or both of the following criteria are permitted to receive food stamps directly through the mail.

1. All household members are age 60 or older, or are receiving some type of disability benefits.

2. The household lives more than 30 miles from the nearest issuance facility, declines to travel to that facility to redeem its ATPs, and does not normally travel over 30 miles to conduct personal business, including use of food coupons.

By limiting the availability of direct mail issuance in this manner, and by careful monitoring of cases which receive food stamps directly through the mail, Texas has been able to stay below federally imposed loss tolerances.

For example, from July through September 1983, Texas issued $4,989,717 through the mail, and replaced losses of $23,099 for a loss rate of 0.46 percent. The average direct mail issuance allotment during that period was $33.66.

RESULTS

In fiscal year 1983 (September 1, 1982, through August 31, 1983) our Division's accomplishments are as follows.

	Food Stamps	Total of All Programs
Completed Investigations	8,928	10,403
Dollar Amount of Fraud	$5,401,597	$8,230,385
Administrative Disqualification Hearings	4,245	4,245
Court Convictions	1,502	1,719
Restitution Arranged	768	857
Restitution Collected	$1,062,538	$1,506,325

Texas was the first state approved to receive 75 percent enhanced funding for fraud control from USDA. In May of this year, Secretary of Agriculture John Block, presented Commissioner Marlin W. Johnston a certificate of appreciation for the Department's outstanding efforts and effective use of enhanced funding for fraud control. The program we have in place and the results I have just shared with you are made possible at current levels by the continuation of that 75 percent funding.

In developing a two-year appropriations act earlier this year, the Texas Legislature found projected revenues to be $2.5 billion short of spending levels approved for state agencies. Despite our State's desire for a strong fraud prevention and control plan, local dollars are simply not available to fully fund those efforts. Continued enhanced federal funding is essential for effective control of program abuse.

RECOMMENDATIONS

° Deferred Adjudication

USDA classifies deferred adjudication cases as out-of-court settlements. States are not allowed to disqualify suspects from program participation or retain 50 percent of the restitution in fraud cases settled out-of-court. We agree with USDA's interpretation in states where that is descriptive of the process; however, deferred adjudication in Texas is by no means an out of court settlement. Our statutes require (1) a plea of guilty or nolo contendre before the court; (2) hearing of evidence; and (3) a finding (by the court) that it (the evidence) substantiates the defendant's guilt.... Then the court may defer proceedings without an adjudication of guilt, place the defendant on probation, impose a fine and require any reasonable terms of probation.

We suggest that this process is sufficiently formal to afford suspects due process and should be recognized as an official court action. We respectfully request that states be allowed to retain 50 percent of the restitution in those cases to help fund their 25 percent share of prosecutor funding.

° Quality Control Error Rates

Another important tool in detection of fraud and improvement of the program can be found in the quality control system. But, when this system is used to penalize the states, its effectiveness towards real program improvement is diminished. The current system is based on an inadquate measuring of errors and simply shifts program costs to states.

The use of fiscal sanctions by the federal government based on quality control findings will create major problems for the State of Texas. Texas has maintained error rates below the national average. At our current error rate, however, our state could lose $54 million in sanctions against the AFDC, Medicaid, and Food Stamp Programs through 1985. This is unreasonable; it is unfair to clients who may be adversely affected by the loss of program funds and it is counter-productive. Surely it would be hard to imagine that program management could improve with a loss of funds of that magnitude.

Historically, DHR has operated a quality control program to monitor AFDC, Medicaid, and Food Stamp Programs for the proper expenditure of public funds. Quality control is established as a management system to produce information which could be used to improve eligibility determination and service delivery. It uses sampling techniques to develop estimates of program benefits provided to ineligible persons and estimates of benefits

provided in excess of correct amounts.

To enhance the value of this effective management tool, I would recommend that Congress instruct USDA and HHS to work with states to design a quality control system that provides useful results for states and the federal government. Also, I would recommend that USDA and HHS present to Congress the redesigned quality control system before any more fiscal sanctions are imposed using the current system.

This new system should exclude technical errors (procedural errors that do not affect eligibility or benefit levels) and client errors (which state agencies cannot control directly). It should use the lower end of the confidence level so that states are not penalized for problems in sampling and estimating techniques.

The system should take into account the volume and timing of court and federally mandated program changes, economic conditions which may increase application rates, and the timeliness of feedback to states on errors. It should also recognize the varying degrees of program complexity among states and it should recognize and give credit to states for running efficient and effective programs. We support the concept of service integration. Narrow constructs of program integrity embodied in punitive quality control systems will work against the experimentation and innovation required to improve program accuracy and access to services by clients.

* Retrospective Budgeting

The 1981 Omnibus Budget Reconciliation Act required states to implement Monthly Reporting and Retrospective Budgeting (MR/RB) in AFDC and Food Stamps.

One year ago we implemented MR/RB in the AFDC Program, and in July 1983 we implemented MR/RB in the Food Stamp Program. Hopes were that MR/RB would improve program performance by enhancing corrective actions already on line. To this end 10 percent (11,000) of the AFDC caseload and 11 percent (44,000) of the food stamp caseload was included in the MR/RB system. The selected populations had a higher probability of error and were less affected by traditional corrective action techniques. However, to date, we have no data to prove MR/RB is an effective tool in reducing error rates. A recent study completed by the center on budget and policy priorities suggests that in fact MR/RB has no statistically significant impact on reducing error rates.

A study conducted by our research and evaluation staff indicates that the work effort for each case increased by five percent. Texas, like most

other states, is not in a position to add the staff necessary to manage this additional workload. MR/RB creates a tremendous volume of paper which must be handled monthly. This increased administrative effort in conjunction with the impact of contradictions between AFDC and food stamp regulations creates an error prone situation.

The Texas Department of Human Resources is committed to reducing the error rates, ensuring that correct benefits go to eligible people, and improving the quality of service to needy families. At present, there is no evidence that mandatory MR/RB assists in these efforts. To meet our commitments to accuracy and quality service, flexibility to address unique demographic and time limited events is of the utmost importance. Monthly reporting was made optional to the states until January 1, 1984, by resolution. Texas supports making monthly reporting and retrospective budgeting optional to the states permanently. States could use this tool for those households where it would be cost effective.

TESTIMONY OF CARLA E. NAKATA

ADMINISTRATOR OF FOOD PROGRAMS

STATE OF KANSAS

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you today to discuss the uses the state has made of fraud and waste reduction incentives and the effect the changes made to the Food Stamp Act by legislation passed in 1981 and 1982, have had on the Food Stamp Program in Kansas.

Kansas has a state population of two million, four hundred thousand people, of which one in twenty, or one hundred thirty-six thousand, eight hundred twenty people, receive food stamps as a part of fifty-two thousand, five hundred twenty-two households. Kansas is committed to the responsible administration of the Food Stamp Program.

In addition to provisions already existing in the Food Stamp Act, the 1981 and 1982 amendments have provided a host of tools to make the program more efficient. I would like to take this opportunity to comment on several provisions of the Food Stamp Act and to discuss how this legislation has been implemented in Kansas. I will, additionally, take the liberty of presenting related ideas for your consideration.

SEVENTY-FIVE PERCENT MATCHING OF COSTS FOR FRAUD INVESTIGATION AND PROSECUTION

Kansas has requested, and has been approved for, seventy-five percent federal matching for allowable costs incurred for fraud investigations, prosecutions, and fraud hearings. This funding has enabled us to establish and maintain a separate food stamp administrative fraud hearings system. Administrative fraud hearings are used to determine client fraud in the majority of all food stamp claims filed in which there was suspected fraud. The judicial system is used only when the amount of the claim or the nature of the activity is such that the agency feels the judicial system should be involved, or in cases in which there is both a public assistance overpayment and a food stamp overissuance with a total dollar value exceeding one thousand dollars. We have found the administrative hearing system to be an

efficient and equitable system for determining fraud in the food stamp program. In Kansas, three hundred ninety-nine food stamp administrative fraud hearings were held in the last state fiscal year.

The State Department of Social and Rehabilitation Services, the state agency responsible for administering the Food Stamp Program, also has a Fraud and Recovery Section which is composed of investigators, auditors, and specially-designated prosecuting attorneys responsible for investigating and prosecuting fraud in the programs administered by that agency. In prosecutions through the judicial system, this unit works in cooperation with local county attorneys across the state.

INCREASED COLLECTION ACTIVITY

Since July of 1981 approximately three hundred twenty-five claims resulting from inadvertant household error have been filed in the state each month. During that time the value of monthly claim collections has increased by sixty-five percent. Currently, over twelve thousand dollars is collected each month for repayment of inadvertant household error claims. The collection action is handled through a system of demand letters initiated manually from the state central office of the Food Stamp Program. Benefit reduction for collection of inadvertant household error claims as authorized in the 1982 amendments to the Food Stamp Act, has not yet been implemented. The volume of inadvertant household error claims filed each month would make manual benefit reduction impossible to administer. An automated accounts receivable system is being developed in order to facilitate claims collections of all kinds, including the implementation of benefit reduction to recover inadvertant household error claims. When this system is in place we anticipate another dramatic increase in collections. This project is by far the most ambitious project for automation currently scheduled for the Food Stamp Program in Kansas. Establishment of an automated accounts reveivable system will require an estimated one thousand, one hundred and fifty hours, or over one man year, of computer programming time. There has been a constant increase in the demand for computer programming time in the Food Stamp Program because of the numerous program changes, and because of the many technological methods for curbing fraud, waste, and abuse that have become available. Considering the high priority

that must be given to other mandated food stamp projects, such as the implementation of Monthly Reporting and Retrospective Budgeting, we do not forsee completion of an automated accounts receivable system until April of 1985.

The number of intentional program violation claims filed each month has doubled since 1981 and the dollar value of intentional program violation claims collected monthly has increased by four hundred percent in that same time. Annually intentional program violation claims, amounting to one hundred ninety-one thousand, two hundred and fifteen dollars are filed. Annual intentional program violation collections amount to approximately fifty thousand dollars. We also anticiapte improved collection of intentional program violation claims with the implementation of an automated accounts receivable system. This system will include automatic monthly collection letters to households with a cash repayment plan and automatic conversion to benefit reduction for those households who fail to comply with their repayment plan.

MATCHING SYSTEMS

Kansas has established automated matching with the wage and benefit files of the Kansas Department of Human Resources for all food stamp household heads. For household members not covered by available automated matching systems, a manual match is completed with Kansas Job Service wage and benefit records at the time of each certification or recertification. These matches with Kansas Job Service records provide information about wages paid in the state and unemployment compensation benefits received in the last quarter. For further employment information, a periodic match of the state payroll is also completed. Kansas obtains information from the Social Security Administration through SSI, SDX and Bendix listings about SSA and SSI benefits paid to state food stamp recipients.

Enhancement of these matching systems is currently underway. Although Kansas is considered to have an automated food stamp system, that system was not designed to accept individual information for all household members. We are in the process of developing a computer system to accumulate individual information, including the name, birthdate and social security number for all household members. This system is required by regulation and is important

because it will form the basis for several automated matching projects, including a totally automated wage and benefit match with Kansas Job Service records to eliminate the cumbersome and time consuming manual system, and an automated match for duplicate participation within the state. We are also in the process of negotiating with the Job Service offices of neighboring states for an exchange of wage and unemployment compensation benefit records for bordering areas of the state.

Given the time to develop the matching potentials available, we feel we will have on hand valuable tools to aid in deterring Food Stamp Program abuse. We appreciate the seventy-five percent matching of administrative funds for the development of automated systems. However, since this matching continues to require that state funds be allocated to these projects, there is sometimes a delay in the implementation of important automation projects. If one hundred percent federal funding were made available for the development of automated data processing systems, states would be able to hire staff as necessary to expedite completion of the projects. This increase of federal funding with the resultant rapid implementation of important projects would frequently result in an overall program cost savings.

ERROR RATE SANCTION SYSTEM

The unadjusted food stamp payment error rate in Kansas for the first half of the 1983 federal fiscal year was 8.9%. Since information from the second half of that fiscal year is not yet available there is no way to determine at this if the target of nine percent for the fiscal year will be met or if the state will be subject to a reduction in administrative funding as a result of the error rate sanction system.

The Food Stamp Program is complex and regulations change frequently. An adequate number of trained eligibility workers is essential to error rate reduction. Kansas, like many other states, has experienced serious fiscal shortfalls in recent years due to declining revenues. Any reduction in federal funding may well mean inadequate funds to administer the Food Stamp Program, resulting in an increased error rate.

LOSS REDUCTION
INCLUDING MAIL LOSS AND LOSS FROM IMPROPERLY REPLACED
LOST OR STOLEN FOOD STAMPS

In Kansas most food stamps are issued by direct mail. The two largest cities in the state do, however, provide over-the-counter service to households for their first month or two of participation. Food stamps are mailed between the first and the fifteenth of the month, with the largest allotments mailed first. This mailing cycle allows most households to know when to expect their food stamps to arrive while reducing the risk of postal theft that exists if all the food stamps for a given area are mailed at one time. Certified mail is used as an alternate issuance system for large dollar allotments ($300.00+) and for all issuances valued at $76.00 or more sent to high loss areas within the state. Mail losses have been tracked by zip code and use of certified mail, for issuance under $300, has been limited to specific zip codes where frequent mail losses have occured. Certified mail is also used for mailing allotments to other households as the need for an alternate issuance system is identified.

Mail loss in the state has decreased proportionately to the use of certified mail. In 1982 the use of certified mail was increased by seventy-eight percent over the level of certified mailings in 1981 and mail loss consequently was reduced by sixty-four percent. Alternate issuance systems such as certified mail are costly. In 1984 with the cooperation of the postal service, we hope to continue to reduce mail loss while also reducing the use of certified mail. We are presently studying losses within a zip code by postal route. In the future we plan to certify only those specific areas of a zip code that experience high loss rates.

The Postal Service is working in cooperation with Food Programs Staff to identify where in the postal system food stamp mail losses might be occuring and to plan ways to eliminate the potential for such loss.

The reduction in improperly replaced lost or stolen food stamps is difficult to separate from other mail loss figures. As I previously indicated the number of replacements fell by sixty-four percent in 1982. This figure reflects not only the increased use of certified mail but also the revised regulations limiting situations in which a household might be entitled to a replacement, and limiting

the number of replacements that might be made to any household in a six month period. While we cannot determine dollar savings, agency records indicate that the regualtions have reduced program abuse.

MONTHLY REPORTING AND RETROSPECTIVE BUDGETING

I would like to touch briefly on monthly reporting and retrospective budgeting. We continue to believe that monthly reporting and a system of retrospective budgeting for households that file monthly reports may well be a way of reducing error in the Food Stamp Program. However, analysis of the implementation impact of this program change indicates these systems will require additional eligibility staff and will result in other increases in administrative costs. As I mentioned earlier, Kansas has been experiencing revenue shortfalls and state agencies have been operating under austerity budgets. Eligibility workers in the Food Stamp Program have high caseloads and even under the constraints of an austerity budget additional staff has been requested from the state legislature for fiscal year 1985. Without adequate staff to handle the increased activity and paper it is possible that the system could result in increased program error. It is possible that monthly reporting and retrospective budgeting will not prove to be cost effective in all circumstances or for all states.

SUMMARY

In summary, I believe it is evident that the Food Stamp Act, as ammended, has allowed states to take action to curb fraud, waste, and abuse in the Food Stamp Program. If states are given the time and money to implement and utilize the existing provisions of this act, these savings will continue and increase. In the past two years major program revisions have been made almost monthly. Eligibility staff requires time to become familiar with current program regulations and states need time to implement and utilize the methods for program improvement currently available to them. We would suggest that program itegrity might be well served if there are no major revisions to the Food Stamp Act this year.

Again, I thank you for the opportunity to talk with you about the Food Stamp Program. I will be glad to answer any questions you may have.

TESTIMONY

OF

WALTER W. COHEN

SECRETARY OF PUBLIC WELFARE

COMMONWEALTH OF PENNSYLVANIA

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. THANK YOU FOR THIS OPPORTUNITY TO DISCUSS PENNSYLVANIA'S FOOD STAMP ADMINISTRATIVE INITIATIVES. THE AREAS I WOULD LIKE TO SHARE WITH YOU TODAY INCLUDE THE PENNSYLVANIA DIRECT DELIVERY PROGRAM, INCLUDING PLANS TO BEGIN USING ELECTRONIC PROCESSING TO ENHANCE OUR DIRECT DELIVERY SYSTEM; OUR DEPARTMENT'S FOOD STAMP FRAUD RELATED ACTIVITY; AND OUR CONCERNS ABOUT THE CURRENT QUALITY CONTROL SYSTEM AND THE ADMINISTRATION OF FISCAL SANCTIONS.

PENNSYLVANIA'S DIRECT DELIVERY

THE DIRECT DELIVERY PROGRAM, BEGUN IN PENNSYLVANIA IN 1971, HAS DRAMATICALLY REDUCED THE LOSSES EXPERIENCED BY THE PENNSYLVANIA DEPARTMENT OF PUBLIC WELFARE DUE TO DUPLICATE ISSUANCES OF BENEFITS. THE PROGRAM PROVIDES AN ALTERNATIVE TO THE DELIVERY OF BENEFITS VIA THE U.S. POSTAL SERVICE: A METHOD HIGHLY SUSCEPTIBLE TO THEFT AND CLIENT FRAUD. PRIOR TO THE EXPANSION OF DIRECT DELIVERY TO INCLUDE FOOD STAMP BENEFITS, THE NUMBER OF REPLACEMENTS ISSUED TO CLIENTS IN PHILADELPHIA COUNTY ALONE AVERAGED 2,800 PER MONTH. IN DECEMBER 1982, 73% OF THE FOOD STAMP HOUSEHOLDS IN PHILADELPHIA COUNTY WERE INCLUDED IN THE DIRECT DELIVERY SYSTEM AND THERE WERE ONLY 128 REPLACEMENTS ISSUED. IT IS ESTIMATED THAT THE REDUCTION IN MULTIPLE ISSUANCES IN PHILADELPHIA COUNTY ALONE RESULTED IN A SAVINGS OF $4,401,527 IN 1982 BASED ON AVERAGE FOOD STAMP ATP VALUE, AND COSTS ASSOCIATED WITH ISSUING REPLACEMENTS.

BASED ON THE SUCCESS OF THE FOOD STAMP DIRECT DELIVERY IN REDUCING MULTIPLE ISSUANCES, THE DEPARTMENT HAS ALREADY EXPANDED THE SERVICE TO 9 OUT OF 21 COUNTIES IN PENNSYLVANIA WHICH HAVE THE

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DIRECT DELIVERY SYSTEM. THE APPROXIMATELY 442,000 HOUSEHOLDS IN THESE 9 COUNTIES REPRESENTS 70% OF THE FOOD STAMP CASELOAD. PLANS ARE TO INCLUDE THE SERVICE TO ADDITIONAL COUNTIES IF IT IS WARRANTED BY THEIR MULTIPLE ISSUANCE RATES.

PROPOSED ELECTRONIC FUNDS TRANSFER SYSTEM

THE PENNSYLVANIA DEPARTMENT OF PUBLIC WELFARE IS CURRENTLY IN THE PLANNING PHASE OF A PILOT FOR AN ELECTRONIC FUNDS TRANSFER SYSTEM. THE EFT PILOT IS SCHEDULED TO OCCUR IN 1984-85 AND WILL INVOLVE BOTH CASH AND FOOD STAMP BENEFITS.

ELIGIBLE FOOD STAMP RECIPIENTS IN THE PILOT AREA WILL HAVE THE MAGNETIC STRIPES ON THEIR PHOTO ID CARDS ENCODED. THESE ENCODED PHOTO IDs MUST THEN BE PRESENTED AT ASSIGNED FINANCIAL INSTITUTIONS. THE MAGNETIC STRIP WILL BE ELECTRONICALLY "READ" AND THE RECIPIENT WILL BE GIVEN THE FOOD STAMPS TO WHICH HE/SHE IS ENTITLED.

THE EFT SYSTEM WILL ELIMINATE THE USE OF THE ATP AS A NEGOTIABLE DOCUMENT THEREBY REDUCING THE POTENTIAL FOR FRAUDULENT USAGE OF THE ATP AND REDUCING THE AMDINISTRATIVE COSTS OF BENEFIT DELIVERY.

ELECTRONIC BENEFIT TRANSFER (EBT)

THE FIRST OFFICIAL TEST OF ELECTRONIC ISSUANCE OF FOOD STAMP BENEFITS WILL BE DEMONSTRATED IN READING, PENNSYLVANIA, BERKS COUNTY, IN 1984-85. THE U.S. DEPARTMENT OF AGRICULTURE/ FOOD AND NUTRITION SERVICE, PENNSYLVANIA DEPARMENT OF PUBLIC WELFARE, AND PLANNING RESEARCH CORPORATION ARE WORKING TOGETHER TO ELIMINATE PAPER FROM THE FOOD STAMP BENEFIT DELIVERY PROCESS. PAPER IS DEFINED AS THE PRINTING, STORAGE AND DELIVERY OF THE FOOD STAMPS TO BANKS; PRINTING, STORAGE, AND DELIVERY OF AUTHORIZATIONS TO PURCHASE FOOD STAMPS TO RECIPIENTS;

AND THE REDEMPTION, COLLECTION, AND ACCOUNTING FUNCTIONS OF THE FOOD STAMPS BY THE REDEMPTION, COLLECTION, AND ACCOUNTING FUNCTIONS OF THE FOOD STAMPS BY THE RETAILERS AND BANKS.

FOOD STAMP RECIPIENTS IN THE TEST SITE WILL BE ISSUED BENEFIT IDENTIFICATION CARDS TO BE USED AS A CREDIT CARD IN RETAIL STORES TO PURCHASE FOOD. EACH PURCHASE WILL ELECTRONICALLY REDUCE THE BALANCE IN THE RECIPIENT'S FOOD STAMP ACCOUNT.

PENNSYLVANIA IS ENTHUSIASTIC ABOUT PARTICIPATING IN THIS PILOT AND EXPECTS TO REDUCE THE OPPORTUNITY FOR FRAUD, REDUCE THE COST OF BENEFIT DELIVERY, AND MOST IMPORTANTLY, PROVIDE FOOD STAMP RECIPIENTS WITH AN EFFICIENT AND EASY TO USE FOOD STAMP SYSTEM.

DPW FOOD STAMP FRAUD RELATED ACTIVITY

THE COMMONWEALTH OF PENNSYLVANIA HAS ACTIVELY PURSUED INVESTIGATIONS RELATED TO FRAUD IN THE FOOD STAMP PROGRAM SINCE EARLY 1979. IN OCTOBER 1981, THE PENNSYLVANIA DEPARTMENT OF PUBLIC WELFARE SUBMITTED ITS PROPOSED FOOD STAMP STATE PLAN AMENDMENT FOR ENHANCED FUNDING FOR FOOD STAMP FRAUD RELATED ACTIVITY. THE PLAN WAS SUBSEQUENTLY APPROVED IN DECEMBER 1981. FOR PENNSYLVANIA, THE EFFECT OF THE 75% ENHANCED FUNDING HAS BEEN DRAMATIC. IN FISCAL YEAR 1980-81, THE DEPARTMENT OPENED 513 SUSPECTED FOOD STAMP FRAUD CASES WITH A TOTAL DOLLAR VALUE OF $331,443. BY FISCAL YEAR 1982-83, THE DEPARTMENT SAW A 554% INCREASE IN THE TOTAL NUMBER OF CASES OPENED (3,355) AND A 440% INCREASE IN THE TOTAL DOLLAR VALUE ($1,899,280).

IN FISCAL YEAR 1980-81, 306 CASES INVOLVING THE FOOD STAMP PROGRAM, WITH A TOTAL DOLLAR VALUE OF $209,370, WERE PROSECUTED. BY FISCAL YEAR 1982-83, THERE WAS AN INCREASE OF 331% IN THE NUMBER OF CASES PROSECUTED (1319) WITH AN INCREASE OF 475%

IN THE DOLLAR VALUE ($1,204,684). SINCE JANUARY 1982, 787 PERSONS WERE DISQUALIFIED FROM PARTICIPATING IN THE FOOD STAMP PROGRAM FOR A MINIMUM OF SIX MONTHS.

IN ADDITION TO THE INCREASED INVESTIGATION AND PROSECUTION ACTIVITY RESULTING FROM THE ENHANCED FUNDING, THE DEPARTMENT HAS MADE SIGNIFICANT IMPROVEMENTS IN THE METHODS BY WHICH SUSPECTED FOOD STAMP FRAUD CASES ARE DOCUMENTED, REFERRED, AND CONTROLLED. THESE CHANGES INCLUDE:

1) A REDUCTION IN THE PAPER WORK INVOLVED IN DOCUMENTING AND MAKING REFERRAL FOR INVESTIGATIONS;
2) USE OF COMPUTER TECHNOLOGY IN TRACKING AND CONTROLLING INVESTIGATIVE REFERRALS; AND,
3) SIMPLIFYING PROCEDURES USED TO ASSEMBLE EVIDENCE NEEDED FOR PROSECUTION.

PERHAPS EVEN MORE DRAMATIC WAS THE EFFECT OF THE ENHANCED FUNDING IN PHILADELPHIA COUNTY DUE TO THE ESTABLISHMENT IN DECEMBER 1980 OF A SPECIALIZED WELFARE FRAUD PROSECUTIVE UNIT WITHIN THE OFFICE OF THE DISTRICT ATTORNEY. IN FISCAL YEAR 1980-81, 49 CASES WITH A TOTAL DOLLAR VALUE OF $26,359, WERE PROSECUTED BY THE PHILADELPHIA DISTRICT ATTORNEY. IN FISCAL YEAR 1982-83, 424 CASES WITH A TOTAL DOLLAR VALUE OF $620,888, WERE PROSECUTED. THIS REPRESENTS A 765% INCREASE IN THE NUMBER OF CASES AND A 2,256% INCREASE IN THE COURT ORDERED RESTITUTION.

AS A PART OF THE PROSECUTION RESPONSIBILITIES, THE WELFARE FRAUD UNIT AGREED TO PROVIDE POST-TRIAL FOLLOW-UP TO INCREASE THE RECOVERY OF COURT ORDERED RESTITUTION. IN ADDITION, TRAINING WAS PROVIDED TO INVESTIGATORS IN CASE PREPARATION AND COURT TESTIMONY.

THE COMMONWEALTH OF PENNSYLVANIA RECOGNIZED THAT THERE CONTINUES TO BE DEFICIENCIES IN ITS WELFARE FRAUD PREVENTION,

INVESTIGATION, AND PROSECUTION EFFORTS. WE PROPOSE TO EXPAND OUR CAPABILITY TO IDENTIFY AND PURSUE THOSE PERSONS NOT COMPLYING WITH COURT ORDERS TO MAKE RESTITUTION; PROVIDE TRAINING TO ELIGIBILITY WORKERS TO PREVENT AND DETECT FRAUD; DEVELOP INFORMATION PAMPHLETS AND OTHER RELEASES TO EDUCATE FOOD STAMP RECIPIENTS AS TO WHAT CONSTITUTES FRAUD ON THEIR PART; TO WORK MORE CLOSELY WITH LOCAL, STATE, AND FEDERAL INVESTIGATIVE AGENCIES; AND DEAL MORE AGGRESSIVELY WITH THOSE PERSONS WHO RECEIVE MULTIPLE BENEFITS.

QUALITY CONTROL AND FISCAL SANCTIONS

THE PRACTICE OF WITHHOLDING FEDERAL FINANCIAL PARTICIPATION, OR WHAT HAS MORE RECENTLY BEEN LABELED FISCAL DISALLOWANCES, IS BASED ON THE QUALITY CONTROL SYSTEMS AND DATES BACK AS FAR AS 1972 WHEN THE THEN DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE FIRST PROMULGATED REGULATIONS TO PENALIZE STATES FOR PAYMENT ERRORS IN EXCESS OF ESTABLISHED TOLERANCE LEVELS. AS WE ALL KNOW, THAT EFFORT CULMINATED IN THE DISTRICT OF COLUMBIA COURT DECISION IN MAY 1976 WHICH DECLARED THE REGULATIONS PRESCRIBING THE TOLERANCE LEVELS AS INVALID.

THE SECOND ROUND OF EFFORTS ON DISALLOWANCES CAME TO FRUITION IN 1978 AND 1979. IN NUMEROUS RESPONSES TO PROPOSED REGULATIONS IN THOSE YEARS, PENNSYLVANIA REGISTERED ITS CATEGORICAL OPPOSITION TO THE WHOLE CONCEPT OF SANCTIONS IN THE WITHHOLDING OF THE FEDERAL FINANCIAL PARTICIPATION IN STATE PROGRAM EXPENDITURES.

WE DO NOT BELIEVE THAT DECREASED FEDERAL REIMBURSEMENT IS NECESSARY TO FORCE STATES TO ADMINISTER THE PROGRAM PROPERLY. AS I HAVE ALREADY OUTLINED, WE IN PENNSYLVANIA ARE AS CONCERNED AS ANYONE IN WASHINGTON ABOUT THE DELIVERY OF ADEQUATE BENEFITS TO ONLY THOSE PERSONS ELIGIBLE.

OUR YEARS OF ANALYSIS OF QUALITY CONTROL FINDINGS AND EFFORTS WITH CORRECTIVE ACTIONS HAVE MADE US KEENLY AWARE OF THE ERROR PRONE NATURE OF WELFARE PROGRAMS. THE COMPLEXITIES AND MULTIPLICITY OF REGULATIONS AND ACCOMPANYING OPERATIONAL PROCEDURES MAKE IT NEARLY IMPOSSIBLE FOR STATES TO EFFECT WELFARE SYSTEMS WITHIN WHAT WE NOW CALL "ACCEPTABLE ERROR RATES."

THERE ARE INNUMERABLE ISSUES AND UNRESOLVED PROBLEMS WITH THE TECHNICAL PROCEDURES AND ERROR CALCULATION METHODS IN THE PRESENT QUALITY CONTROL SYSTEM. GIVEN THE HISTORY OF EFFORTS TO DEAL WITH THESE MATTERS AND FINDING THEM UNRESOLVED TODAY FORCES US TO CONCLUDE THAT AN ALTERNATIVE METHOD MUST BE FOUND WHICH CAN WORK. IN PURSUING THIS EFFORT, WE URGE THAT THE ISSUE OF FEDERAL SANCTIONS NOT BE TIED TO A QUALITY CONTROL SYSTEM. QUALITY CONTROL'S PARAMOUNT VALUE IS IN ITS PROGRAM EVALUATION CAPACITY WHICH FACILITATES STATE AGENCIES' DEVELOPMENT OF VIABLE CORRECTIVE ACTIONS. THIS ROLE OF PROGRAM EVALUATION HAS BECOME DISTORTED AND HENCE SUBVERTED TO THE BUDGET ISSUES AND RELATED FEDERAL SANCTIONS. PENNSYLVANIA BELIEVES THAT OTHER PERFORMANCE MEASURES AND REPORTING MECHANISMS CAN BE USED TO ADDRESS THE BUDGET MATTERS AND THE CALCULATION OF PAYMENT ERROR AMOUNTS. WE URGE THIS COMMITTEE TO LOOK AGAIN AT THE WHOLE AREA OF FISCAL SANCTIONS IN LIGHT OF THE CONCERNS EXPRESSED BY PENNSYLVANIA AND OTHER STATES HERE TODAY.

AGAIN, THANK YOU FOR THIS INVITATION AND I NOW WELCOME ANY QUESTIONS.

Statement of John Cubine, Commissioner, Department for Social Insurance, Cabinet for Human Resources, Frankfort, KY

Mr. Chairman, Committee members, I want to thank you for the opportunity to appear before this Committee. The Food Stamp Program has grown from a relatively small income maintenance program to one of the largest, more complex social welfare programs. In Kentucky, a state of 3,700,000 persons, one of six persons receive food stamps each month. Over 9% of all retail food sales in the state are food stamps. The Food Stamp caseload is almost twice as large as the Medicaid Program and four times as large as the AFDC caseload. Approximately 17% of all Kentuckians are below the Federal poverty level and 23% are below 125%.

In the late 1970's, Kentucky and a number of other states began a process of direct mail issuance. The system reduced administrative cost and improved client services. In a state such as Kentucky, with a number of rural counties and a large number of aged and disabled clients, this was a major service improvement. USDA has issued regulations to penalize states for "high " mail losses, .5 of one percent. Early is 1982, we began looking for alternatives to address the direct mail problem. Going back to over-the-counter issuance would have cost $3.5 million a year. The U.S. Post Service will not return to over-the-counter issuance once a state cancels the agreement. A survey of banks indicated little or no interest in handling food stamp issuance. We looked at the state agency issuing, utilizing grocers for issuance, private contractors, personalized coupons, and a variety of other approaches.

In addition, Federal requirements on monthly reporting plus the caseload increases created a tremendous new workload potential. Due to limited available state revenue, adding more staff was not an option. Almost 70% of the administrative cost of income maintenance programs is personnel. Almost 40% of professional/ caseworkers time is spent on clerical, not eligibility activities.

A decision to put an RFP together to automate all aspects of the program was made. The reasons for this action were:

- Large scale project to ensure fiscal resources sufficient to achieve cost savings.

- Comprehensive and compatible package for both eligibility and issuance.

- RFP allowed vendors to develop approach to issuance. Advantage of private sector developing alternatives.

- RFP fixed price to include all computer equipment, installation, maintenance, on-going support, postage, printing, etc.

- Twelve firms at bidders' conference, four firms bid.

- Technical and price:

  - 60% technical including corporate capacity, experience, and proposed solutions

- 40% price/three year bid plus two one year renewal option.

Under the new system, the Kentucky Automated Certification and Issuance System, or KACIS, the number of staff to administer the program will be reduced from 1,100 to 750. An attrition plan and the use of temporary staff eliminated the need for any layoffs.

I would like to highlight the major features of the system:

- Terminal on each worker's desk;

- Eligibility application on line;

- Matches to other files, UI wage records, motor vehicle, etc., instantly while the client is at the desk;

- Automates case monitoring, tracking, and management reports; and,

- Fully automates forms, mail, etc.

The eligibility system is scheduled for implementation on December 1, 1983. Implementation was delayed for one month due to the telecommunications strike.

We are in the final stages of approval of the issuance system. Let me point out that the issuance system will have the greatest public visibility, but the key to the reduction in erroneous dollars is in the eligibility system.

The issuance system features:

- Personalized coupons;

- Plastic I.D. card/magnetic stripe;

- On-line verification of coupons except small rural low volume grocers;

- Automated fund transfer to grocers, no flow of coupons through banks;

- Immediate reconciliation/tracking/monitoring;

- Expiration date on coupons; and

- Elimination of Food Stamps as second form of currency.

Kentucky is extremely proud of this new system. The techniques we are employing are not new, they are common in private industry. States plus the Federal government must reassess how they do business. The KACIS project allows the state to determine eligibility and maintain control, oversight, and responsibility for total program operation. The high technology and related support and resource functions to execute were left to the private sector.

The KACIS contract is a 50/50 Federal/State match and no payment is made until the system is implemented and operational. In addition, the firm which designed and installed will also be

maintaining the system. This approach assures consistency and a long term interest in the system for all parties.

Attached please find a report on a number of the specific program areas which Congress has addressed in the last several years. In addition, a copy of a system overview of KACIS is included.

In summary, the Food Stamp Program was reduced by approximately 27,000 persons in October, 1981 after the Omnibus Reconciliation Act. Since that time, the impact of the recession has added thousands of Kentuckians to Food Stamps, Medicaid, and AFDC. In 1982, 72,000 Kentuckians exhausted all Unemployment Insurance benefits. In 1983, 52,000 have already exhausted. New application in Food Stamps are up 18-20% in Kentucky.

Federal and State governments administer most income maintenance programs in much the same way we did in the 1960's. Technology is the approach to improve program integrity, reduce administrative costs, and improve service delivery. In addition, the statement has been made that states have no interest in lowering the Food Stamp errors since it is 100% Federal funds. Two statements should be made in this area:

- State taxpayers and Federal taxpayers are the same; and

- If states take corrective action in AFDC and/or Medicaid, the increased administrative cost is offset by benefit savings. In Food Stamps, states cannot recover those new costs. During difficult state fiscal periods, this problem is magnified. For example, without KACIS, Food Stamp MMR would have cost Kentucky almost a $1,000,000 in new general funds. A better incentive system for collection and overpayments must be found to allow states to commit the necessary resources to this program.

Workfare or normal work registration activities are not applicable in Food Stamps due to the large caseload. The administrative cost and relationship of the Food Stamp caseload to the economy pose very major hurdles to effective job placement.

Kentucky is currently reviewing techniques such as cash incentives rather than expensive training programs to enhance employment movement.

The answers to many of the problems in the Food Stamp Program vary from state to state. The Food Stamp Program is the most restrictive and the most highly Federally regulated and controlled of any income maintenance program, yet has higher payment errors than AFDC or Medicaid. It is almost impossible to treat all 50 states alike. More individual state options and the ability to share in savings is critical to improved program operation.

ADMINISTRATION OF THE FOOD STAMP PROGRAM IN KENTUCKY

PART I

THE COLLECTION OF OVERISSUANCES

Effective April 1, 1983, Federal Regulations changed several policies in the procedures and collections of overissuances in the Food Stamp Program. The changes and the positive and negative effects are as follows.

A. Intentional Program Violation Overissuances

The recipient who committed the Intentional Program Violation is disqualified according to the number of offenses;

First offense - disqualified for six months.
Second offense - disqualified for twelve months.
Third offense - disqualified permanently.

No significant effect has been realized with these changes since they have been in effect only a short time.

B. Inadvertent Household Error Overissuances and Administrative Error Overissuances

Coupon reduction can now be invoked against the monthly food stamp allotment for overissuances of this type. There has been a dramatic increase in the amount collected through coupon reduction. The money and coupons collected continue to fluctuate with no significant increase. The following shows the amount of collections per month:

	MONEY ORDERS	COUPONS	COUPON REDUCTION
4/83	$15,738.54	$6,813.00	$ 4,191.00
5/83	$18,925.95	$8,681.00	$ 4,896.00
6/83	$18,677.63	$6,012.00	$13,033.00
7/83	$13,568.79	$5,737.00	$16,650.00
8/83	$15,944.25	$4,648.00	$17,683.00

Collections by coupon reduction have increased by 339% between March, 1983, and August, 1983. No negative effects have been realized by this change.

Effective December 1, 1983, Kentucky will implement changes to establish specialized claims workers throughout the State. The sole responsibility of these workers will be to establish claims identified, pursue collections, and report all payments via the KACIS computer system. Our estimates are that once the claims workers are in place, claims identified, completed, and collected will increase by at least 35%.

C. Recommendations for Changes

1. Any sanctions against the states should be offset by collections.

2. The entire household should be disqualified when an Intentional Program Violation occurs.

3. Allow the states more forceful regulations in pursuing collections on inadvertent household error overissuances.

D. Collection of Delinquent Accounts

The Department for Social Insurance has developed a plan to systematically address the growing problem of delinquent accounts. It was felt that a more intensive effort was necessary during a time of decreasing revenues and program reductions. The plan is straight forward and will maximize our collection efforts.

First of all, each Division which has delinquent accounts will have 90 days to collect those accounts. If, after 90 days, the division responsible for the account has not been successful in their collection efforts, the 90 day delinquent accounts will be forwarded to a special unit which will have no other responsibilities except to do collection activities.

This special unit will be equipped with data/word processing equipment so

that the cases can be easily transferred electronically back and forth between the Collections Unit and the division which referred the delinquent account. This will be more cost effective, accurate, and timely than trying to develop a manual system.

If the Collections Unit has not been successful after 90 days, a decision will be made whether to refer the account to a professional collection agency. Currently, the Department has a draft Request for Proposal that will be issued in the near future. This proposal will give the Department the ability to refer accounts that, for whatever reason, have been difficult for the Department's staff to collect. The collection agency will be paid based on a percentage of the amount which they collect. If they do not collect any money, they receive no reimbursement from the Department.

The Department feels that this concept is a reasonable approach. Those accounts which are the most difficult will receive the greatest effort, assuming that they are in fact collectable. In addition, this approach will put everyone on notice that we are very serious about collecting these accounts and will make future collections that much easier.

Following is the approximate total Accounts Receivable broken down by dollar amount and category which would be turned over to the successful bidder for collection, under the terms and conditions outlined in the request for Proposal:

1.	Medical Assistance (Medicaid).....	$ 441,075*
2.	Aid to Families with Dependent Children....	$ 737,291
3.	Food Stamps.....	$ 2,718,166
4.	Child Support Enforcement.....	$13,800,000
5.	Unemployment Insurance.....	$16,266,150
TOTAL.....		$33,962,682

*This total represents accounts receivable from Providers of Medical Care with the exception of $75,000 which may be assignable to recipients.

PART II

WAGE MATCHING

Effective January 1, 1983, federal regulations mandated that state agencies execute a wage match of participating food stamp households. The regulations provided two sources that could be used to do wage match. Kentucky elected to match against Unemployment Compensation Agency files.

Although this agency has a centralized Automated Data Processing System for Food Stamps, this system does not gather information on members in the household. In order to meet the new requirements an entire new system had to be created. County staff had to review all food stamp cases and complete a form designed to capture member information. Once completed, these forms were sent to a private contractor for key punching. This process was completed in December 1982. County staff continue to collect new member information on an ongoing basis.

Beginning in January 1983, each month the member information for cases due a certification is matched against wage record files. The "hits" are identified on a computer listing. County staff review the information on this listing and take necessary action by the 15th of the following month.

To monitor the effectiveness of the wage match, a Food Stamp Wage Disposition Report is completed in each county and is compiled into a statewide report. Chart 1 reflects data from this report.

The implementation of KACIS will dramatically improve the efficiency of the wage match system.

Chart 1

WAGE MATCH RESULTS

Number of Raw "Hits"		25,589
"Hits" Involving Actual Overissuance	-	322
Amount of Benefits Reduced or Terminated	-	$ 5,575.00
Fraud Claims Established	-	$ 2,636.00
Non-Fraud Claims Estsblished	-	$29,055.00

Chart 2

WAGE MATCH COSTS

Keypunching	-	$35,546.98
Computer Production Costs	-	$ 5,800.00
Average Follow-up Time/Personnel Costs (10 min. per hit)	-	$38,887.00
Postage	-	$ 6,152.00
Central Office Personnel	-	$ 2,452.00
Cost of Printing Forms	-	$ 4,792.22
Total	-	$93,630.20

PART III

TRENDS IN ERROR RATES AND CORRECTIVE ACTION PLANNING

Through the past decades, the total error rate of the Food Stamp Program has been used by both State and Federal Governments as an indicator of administrative accuracy and client credibility within this program. Kentucky has attempted to reduce the Food Stamp error rate (case and coupon) over the years. A significant decrease in primary errors was a result of extensive revisions made to both the Quality Control review process and the data collection mechanism. Some of the changes in the review process as a result of the 1977 Food Stamp Act are as follows: elimination of the purchase requirement, introduction of a standard deduction, introduction of a utility standard, introduction of a ceiling for excess shelter and dependent care deductions, and non-consideration of medical expenses. In addition, certain program areas which would have resulted in erroneous coupon allotments in the past were redefined as being contributors only to non-dollar errors. During the adjustment period of January - June, 1978 in which Quality Control revisions were made, certain program changes such as non-consideration of medical expenses in most situations and the elimination of work registration along with procedural errors as error elements were simultaneously implemented which reduced the case error rate to 27.2 percent. This percentage was shown as 33.8 percent for the January - June, 1978 review period under the old system. Also, when considering both the case and coupon error rate, consideration must be given to the fact that coupon allotment can now vary as much as $5.00 without a dollar error being coded. Under the old system, this tolerance was not built-in.

As shown in the following chart, program changes rather than actual reduction of errors have played the major role in the decreased case and coupon errors.

	KENTUCKY CASE ERROR RATE (%)	KENTUCKY COUPON ERROR RATE (%)	NATIONAL COUPON ERROR RATE (%)
Jan.-June, 1978	*33.8/27.2	*13.2/9.5	
July, 1978-Sept., 1979	reviews suspended		
Oct., 1979-March, 1980	19.8	9.3	12.6
April-Sept., 1980	20.3	8.2	11.2
Oct., 1980-March, 1981	21.9	10.0	13.31
April-Sept., 1981	23.8	8.6	
Oct., 1981-March, 1982	24.2	9.0	
April-Sept., 1982	22.5	9.2	

*The error rates are listed under both the old system and the new system.

No significant changes have occurred between review periods.

Kentucky realizes the importance of implementing future corrective actions to reduce the coupon error rate in order to avoid federal fiscal sanctioning. Since both the time and fiscal resources that can be devoted to corrective action planning and implementation are being even more limited, Kentucky is placing primary emphasis on the corrective action, Kentucky Automated Certification and Issuance System (KACIS), which is expected to prevent most of the 2.4% of the errors caused by the agency. This is predicted to solve many administrative problems and reduce agency errors significantly. Another major corrective action plan is being developed to address the problem of client errors which constitute 6.8% of all coupon errors. This is the pre-application for demonstration funding under Section 17 (b) (1) of the Food Stamp Act which was submitted to Washington on August 17, 1983. Kentucky Operation PRIDE (Project for Reduction in Detectable Errors) is designed to prevent client related case errors through increased client information and awareness and to detect client and agency errors through case reviews, thereby reducing program costs and avoiding administrative sanctions. Subordinate to this, Operation PRIDE seeks to provide a method for corrective action which could be applied statewide. Upon implementation of KACIS and hopefully Operation PRIDE, Kentucky anticipates an error rate reduction below the established tolerance levels.

PART IV

WAIVER OF FOOD STAMP REGULATIONS NEEDED TO IMPLEMENT KACIS

A. Summary of Waivers Requested

	Regulation	Requirement	Waiver Requested
1.	7CFR271.5; 274.2(i)	USDA coupons are considered an obligation of the United States for purposes of fraud, trafficking and counterfieting penalties.	A waiver was requested which would make Kentucky coupons an obligation of the United States for these same purposes.
2.	7CFR273.10 (g)(4)(i)	Current Food Stamp Identification cards do contain identifying household information.	A waiver was requested to allow for an identification card without identifying information if necessary.
3.	7CFR274.2 (e)(2),(f)(6); 274.3	Regulations allow for food stamp benefits to be issued over a 15 day cycle.	A waiver was requested to allow issuance to be staggered over a 20 work day cycle.
4	7CFR 274.2(i)	States must issue according to an FNS issuance table.	A waiver from using this table was requested as different denominations of coupons would be used and varied combinations of these denominations issued.
5.	7CFR274.2 (i)(3)	Allotments totaling $1, $3 or $5 are rounded to $2, $4 and $6, respectively.	Kentucky requested a waiver from this as new coupon denominations would allow for allotments of $1, $3 and $5.

6.	7CFR278.2(h)	Retailers currently ask to see identification when accepting food stamp coupons when they feel it is warranted.	A waiver was requested to require presentation of the identification card when using food stamp coupons.
7.	7CFR272.1(c)	Currently, all information in the case record must be safeguarded.	A waiver was requested from this regulation if personalized coupons are considered a release of information to unauthorized persons.
8.	7CFR274.2 (e)(3)	Authorization to Participate Cards used in Campbell, Fayette, Jefferson and Kenton counties expire; USDA coupons never expire.	A waiver was requested to allow for an expiration date on the identification cards and food stamp coupons.

B. Summary of Potential Issuance Waivers

1. Kentucky currently has a waiver allowing for direct delivery of coupons in Campbell, Fayette, Jefferson and Kenton counties. With implementation of a new system, this waiver may need to be re-requested.

2. Food stamp coupons are currently considered negotiable documents and treated as such in regards to security and accountability. A waiver may be needed to consider Kentucky coupons as non-negotiable documents.

3. Coupons are currently received from FNS for issuance in Kentucky. A waiver from the requirements governing this process may be needed for coupons printed in Kentucky.

4. The state agency currently has responsibility for food stamp coupons. A waiver from these responsibilities may be appropriate since the coupons printed in Kentucky will not be negotiable.

5. Regulations govern procedures of retailers in handling coupons--regarding payment, redemption from the banks--and the role of the Officer-in-Charge regarding violations. Waivers from these procedures may be necessary due to the change in the system of handling coupons.

6. Currently, wholesalers have procedures for handling coupons given them for payment of merchandise from a retailer. A waiver from the regulations governing this area may be necessary as wholesalers are unlikely to be receiving Kentucky coupons.

7. Regulations require certain procedures for dealing with burned and mutilated coupons. A waiver from these procedures may be needed as the new system may require different procedures.

8. Regulations govern the interrelation of the local banks and the Federal Reserve Bank. Procedures used in the new system may require waiving current regulations.

9. Current regulations allow for retailers to be fined or disqualified for violations. A waiver may be needed to allow for debiting the retailer's account for some violations.

10. Regulations govern the administrative/judicial review of retailers performed by FNS. If this system is continued, procedures regarding the new system need to be developed. If Kentucky picks up the responsibility of the reviews, a waiver may be needed from the current regulations.

PART V

DIRECT MAIL ISSUANCE LOSSES

WHAT KENTUCKY HAS DONE

Direct mail issuance was introduced in March, 1981 to 116 counties in the Commonwealth. Direct mail issuance includes the automatic stuffing of correct allotments of food coupons into envelopes by an electronic inserter and mailed to the client's home address.

The use of direct mail is a cost effective method of distribution. However, there is one big disadvantage, which is client reports of non-receipt. This can easily be demonstrated by our loss rate for the third quarter of 1981. The total loss for that time period was $317,404. Our agency, realizing the need for immediate action, took steps that have significantly reduced this amount.

The following actions were taken to reduce the loss rate:

A. Contact with Postal Officials

Staff met with postal officials on a regular basis to keep them informed on the loss of food coupons. The post office cooperated fully with our department.

B. Color Coding Envelopes

When direct mail was implemented, a kraft color envelope was used to mail the coupons. It was felt that by using different colored envelopes plus using a different return address, we could camouflage the food coupons. This proved to be very effective.

C. Certified Mail

As the loss rate became critical in certain direct mail counties, a decision was made on the state level to use certified mail to deliver the coupons to the client. Although the cost of certified mail was not attractive, it did prove to reduce the dollar amount of loss.

D. Direct Pouching

Based on data supplied by our computer system, it was determined that specific zip codes in the Commonwealth experienced more loss than others. Therefore, having discussed this with postal officials, it was decided to direct pouch certain zip codes. This meant that mail would go directly to the local post office rather than going through a postal sectional center.

E. Certifying Allotments of $100 or More

In the constant efforts to reduce cost and also reduce mail loss, the loss on certified mail was constantly analyzed. Findings indicated that only a minimum number of coupons was reported as lost when the allotment was below $99. Consequently, these allotments are no longer sent by certified mail. This procedure has not increased the loss rate and has saved approximately $30,000 monthly on postage.

F. Staggered Issuance

In accordance with regulations, the issuance of coupons is staggered over 10 days. This is accomplished by using the last digit of the client's social security number. A waiver has been requested to stagger over a 20-day period. The agency is currently looking toward this early next year.

Based on the positive steps taken by this State, the loss rate which was at one time $317,404 for a quarter has been reduced to $188,866 for the second quarter of 1983. This represents a 41% reduction in loss. We will continue to monitor our losses and pursue positive steps to further reduce the loss rate.

PART VI

IMPROVING THE ADMINISTRATION OF THE FOOD STAMP PROGRAM

The past several years have been a time of constant change in this very complex program. Each change tended to increase the complexity of the program. Many changes were issued in federal regulations with unreasonable time frames allowed for states to implement these changes. The results of these changes are an inflexible system mandating states to operate the program as dictated at the federal level. There is little room to develop alternative measures at the state level which specifically address errors, fraud and abuse which may exist at the state or local level. The following suggestions are offered as a means of giving states more flexibility and to simplify the program in the process.

A. Greater Interaction Between Federal Agencies As A Means to Make Program Policies More Compatable

Both the AFDC and Food Stamp Programs are large complex programs providing essential benefits to needy people. Many households receive benefits under both programs. Staff in many states determine eligibility for both programs. To improve program efficiency and reduce errors, the eligibility requirements for both programs should be as consistent and uniform as possible. Issues such as income and resource consideration, household definition, work registration, time frames for processing and verification procedures should be considered jointly by HHS and USDA. Such interaction between agencies will ease program administration, help reduce errors and increase program integrity.

B. Revise Monthly Reporting and Retrospective Budgeting Legislation to Make MRRB an Option

The effectiveness of MRRB has not been demonstrated. Many states have developed their own unique and creative correction action programs which address program problems. Mandatory implementation of MRRB diverts the resources which have been devoted to successful error rate reduction and it is actually expected to increase errors. At a time when we are faced with limited federal and state resources and the possibility of fiscal sanctions, we are being forced to use an unproven alternative.

In addition to the administrative burden MRRB places on the states, it also causes serious hardships on recipients because it computes current benefits on income received one or two months ago even if that income is no longer received. It is also anticipated that many eligible households will lose benefits because of the complex reporting requirements.

For these reasons, we strongly recommend that MRRB be made an option rather than a mandatory administrative process.

C. Simplified Definition of "Household"

There are five pages of federal regulations devoted to household concept. The definition of a household is extremely confusing and lists many exceptions to the basic definition. For example: Persons who are both elderly and disabled may be certified separately from other household members if they are unable to prepare their own meals and the income of the other household members does not exceed 165% of the gross monthly income eligibility standard. Many of these exceptions apply to very small percentages of the client population and unnecessarily complicate the certification process. The current regulations pave the way for increased payment errors. Until the definition of household is simplified there is a greater probability that cases will be worked incorrectly.

The definition of a household should be revised so that all individuals who live together with only limited exceptions would be considered in one household. To accomplish this, simplify and reduce the number of categories of non-household members and excluded household members.

D. Administrative Flexibility

Allowing states greater administrative flexibility is mentioned in most all recently issued federal regulations. Yet, many of these same regulations were scheduled for implementation within 60 days of publication. The recent changes in Disqualification Penalties (7 CFR 273.16) issued on February 15, 1983, and effective April 1, 1983, is an example. We recommend a minimum 120 day implementation schedule be allowed for all major changes. This schedule would allow sufficient time to study the new requirements, revise handbooks, reprogram computers and train staff.

On a similar administrative issue, many waiver requests, especially relating to MRRB, have been recently submitted to Regional FNS office. In addition, policy matters which cannot be resolved at the State level are referred to the Regional FNS office. A more expeditious response time is requested on waiver requests and policy interpretations. A possible resolution may be to give the Regional FNS offices greater authority to rule on waiver requests.

Proposed regulations on amendments to the Quality Control Review Process state the QC reviews measure the validity of food stamp cases by reviewing against the Food Stamp Act and the Regulations, including FNS authorized waivers, and not the State agency's manual. If FNS is flexible

enough to no longer require their prior approval to the agency's manual a requirement that states Q.C. reviewers use the Act and the Regulations instead of the agency's manual is nothing more than a retraction of flexibility.

Flexibility in the administration of the Food Stamp Program is a welcomed concept. Yet, with complicated, detailed regulations, unrealistic implementation time frames and difficulty obtaining waiver approval, flexibility is difficult to achieve. If regulatory requirements can be simplified and maximum support and flexibility provided, improvements in the administration of the program can be expected.

TABLE 1

CASELOAD SIZE AND DOLLAR VALUE OF FOOD STAMP COUPONS ISSUED

	Caseload		Total	$ Certified Issuance
	PA/FS	NA/FS		
7/82	23,231	141,936	165,167	22,244,956.00
8/82	23,265	142,433	165,698	22,239,048.00
9/82	23,435	143,859	167,294	22,379.647.00
10/82	23,742	146,183	169,925	25,089,923.00
11/82	23,027	151,537	175,364	25,465,798.00
12/82	24,103	158,120	182,223	27,445,347.00
1/83	23,951	168,600	192,551	28,442,100.00
2/83	24,069	173,515	197,584	29,291,348.00
3/83	24,243	164,750	188,993	29,470,534.00
4/83	24,241	167,700	191,941	28,929,761.00
5/83	23,994	161,052	185,046	28,466,002.00
6/83	23,887	158,990	182,877	26,599,300.00
7/83	23,842	158,850	182,692	27,073,087.00

TABLE 2

DOLLAR VALUE OF FOOD STAMP COUPONS ISSUED

CERTIFIED ISSUANCE

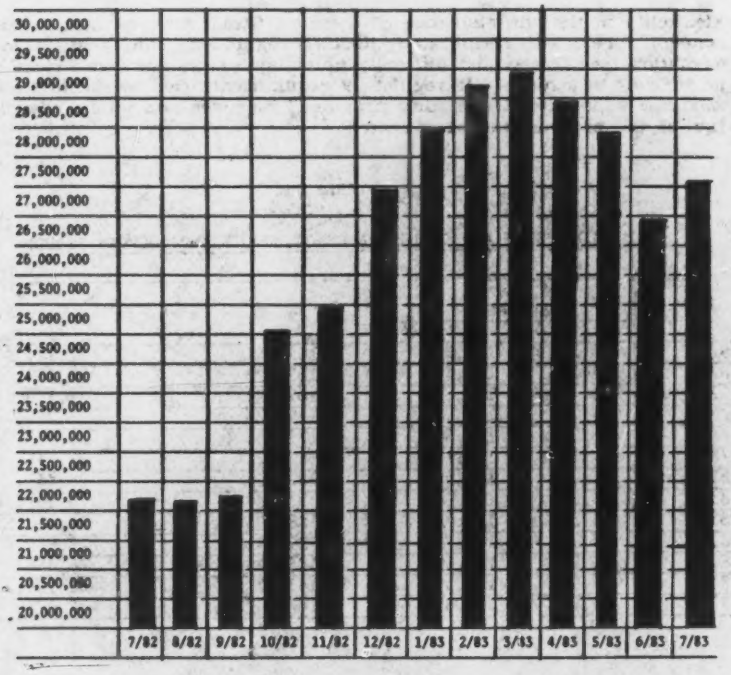


TABLE 3

FOOD STAMP CASELOAD IN KENTUCKY

CASELOAD

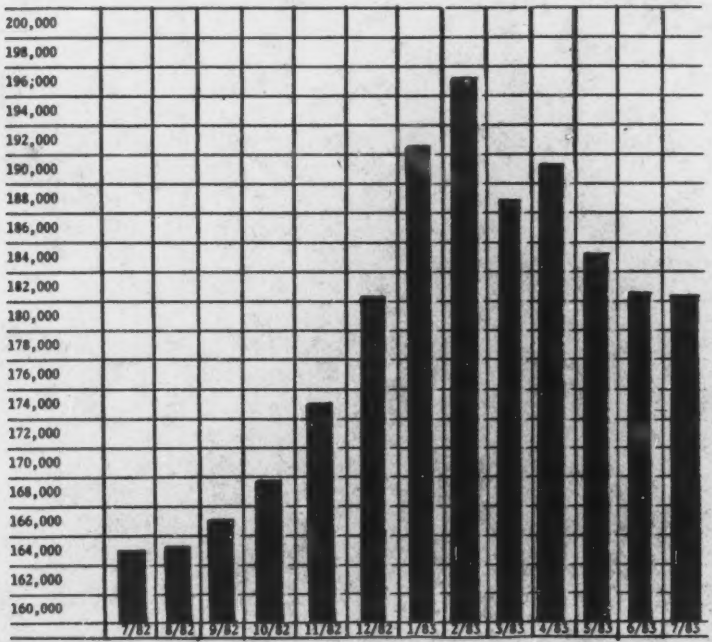


TABLE 4

COST OF QUALITY CONTROL ERRORS

Projected average Food Stamp Families	-	185,000
Projected average Food Stamp Individuals	-	610,500
Projected annual Food Stamp Issuance	-	$360,000,000

PROBLEMS OF CURRENT PROGRAM

Total Food Stamp Mail Loss (11/81 - 9/82)	-	$ 1,223,557
Potential Penalty	-	$364,000
Food Stamp Payment Error Rate	-	9.0%
Ineligible	-	2.9%
Overpaid	-	4.2%
Underpaid	-	1.9%
Potential Sanction	-	$873,033

MAJOR PROGRAM ERROR CAUSES

Primary Errors

Wages and Salaries	-	3.6%
Household Size and Composition	-	1.0%
Total	-	4.6%

Other Elements

Unemployment Compensation		
Other Unearned Income		
Residency		
Statutory Benefits		
Shelter Deduction, etc.		
Total	-	4.4%

REASON FOR ERROR

(Percentages of Total Cases in Error)

Administrative Error	-	35.4%
Client Error	-	64.6%
Unreported Changes	-	36.5%
Incorrect Information Reported	-	28.1%

FUTURE COSTS

Mandatory Monthly Reporting	-	?
Mail Loss Remedies	-	?
Wage Match	-	?
1982 Amendments	-	?

TABLE 5

PROJECTED COST SAVINGS WITH A NEW FOOD STAMP SYSTEM

Projected annual savings for Kentucky:

Administrative Costs	$7,069,948
Penalty for Mail Loss	$ 364,000
Penalty for Quality Control Errors	$ 873,033
Total	$8,306,981

Additional projected savings in federal tax dollars:

Reduction in Payment Errors	$11,536,849
Reduction in Theft, Trafficking and Counterfeiting	$10,000,000

Table 6
Projected Budget
Federal Fiscal Year 1984
10/83 - 9/84

	WITHOUT KACIS	WITH KACIS	INCREASE OR DECREASE
Salaries & Wages	$22,642,000	$15,002,000	-$7,640,000
Fringe Benefits	3,963,000	2,640,000	- 1,323,000
Other Personnel Costs	172,000	172,000	0
Professional Contract Costs	780,000	5,198,000	+ 4,418,000
Other	77,000	77,000	0
Utilities & Heating Fuels	185,000	185,000	0
Rentals	710,000	710,000	0
Maintenance & Repairs	101,000	75,000	- 26,000
Postage & Related Services	1,433,000	1,370,000	- 63,000
Miscellaneous Services	180,000	175,000	- 5,000
Telecommunications	450,000	450,000	0
Computer Services	897,000	450,000	- 447,000
Supplies	132,000	132,000	0
Commodities	22,000	22,000	0
Travel	170,000	170,000	0
Miscellaneous Commodities	21,000	21,000	0
Furniture/Equipment	6,000	6,000	0
TOTAL	$31,941,000	$26,855,000	-$5,086,000
50% State Funds	$15,970,500	$13,427,500	-$2,543,000
50% Federal Funds	$15,970,500	$13,427,500	-$2,543,000

Table 7
Projected Budget
Federal Fiscal Year 1985
10/84 - 9/85

	WITHOUT KACIS	WITH KACIS	INCREASE OR DECREASE
Salaries & Wages	$24,453,000	$15,000,000	-$9,453,000
Fringe Benefits	4,641,000	2,850,000	- 1,791,000
Other Personnel Costs	178,000	178,000	0
Professional Contract Costs	2,808,000	14,679,100	+11,871,100
Other	81,000	81,000	0
Utilities & Heating Fuels	215,000	215,000	0
Rentals	746,000	746,000	0
Maintenance & Repairs	83,000	83,000	0
Postage & Related Services	1,500,000	100,000	- 1,400,000
Miscellaneous Services	189,000	184,000	- 5,000
Telecommunications	675,000	675,000	0
Computer Services	942,000	200,000	- 742,000
Supplies	139,000	139,000	0
Commodities	23,000	23,000	0
Travel	179,000	179,000	0
Miscellaneous Commodities	22,000	22,000	0
Furniture/Equipment	6,000	6,000	0
TOTAL	$36,880.000	$35,360,100	-$1,519,900
50% State Funds	$18,440,000	$17,680,050	-$ 759,950
50% Federal Funds	$18,440,000	$17,680,050	-$ 759,950

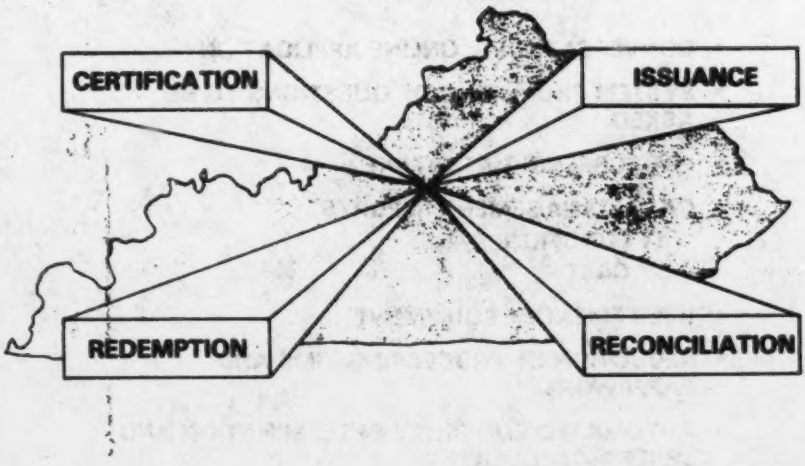
Table 8
Projected Budget
Federal Fiscal Year 1986
10/85 - 9/86

	WITHOUT KACIS	WITH KACIS	INCREASE OR DECREASE
Salaries & Wages	$26,409,000	$16,350,000	-$10,059,000
Fringe Benefits	5,216,000	3,230,000	- 1,986,000
Other Personnel Costs	184,000	184,000	0
Professional Contract Costs	2,808,000	7,038,400	+ 4,230,400
Other	86,000	86,000	0
Utilities & Heating Fuels	250,000	250,000	0
Rentals	784,000	784,000	0
Maintenance & Repairs	87,000	87,000	0
Postage & Related Services	1,725,000	100,000	- 1,625,000
Miscellaneous Services	199,000	193,000	- 6,000
Telecommunications	844,000	844,000	0
Computer Services	990,000	200,000	- 790,000
Supplies	146,000	146,000	0
Commodities	24,000	24,000	0
Travel	188,000	188,000	0
Miscellaneous Commodities	23,000	23,000	0
Furniture/Equipment	7,000	7,000	0
TOTAL	$39,970,000	$29,734,400	-$10,235,600
50% State Funds	$19,985,000	$14,867,200	-$ 5,117,800
50% Federal Funds	$19,985,000	$14,867,200	-$ 5,117,800

KACIS

KENTUCKY AUTOMATED CERTIFICATION ISSUANCE SYSTEM

KACIS
THE KENTUCKY SOLUTION

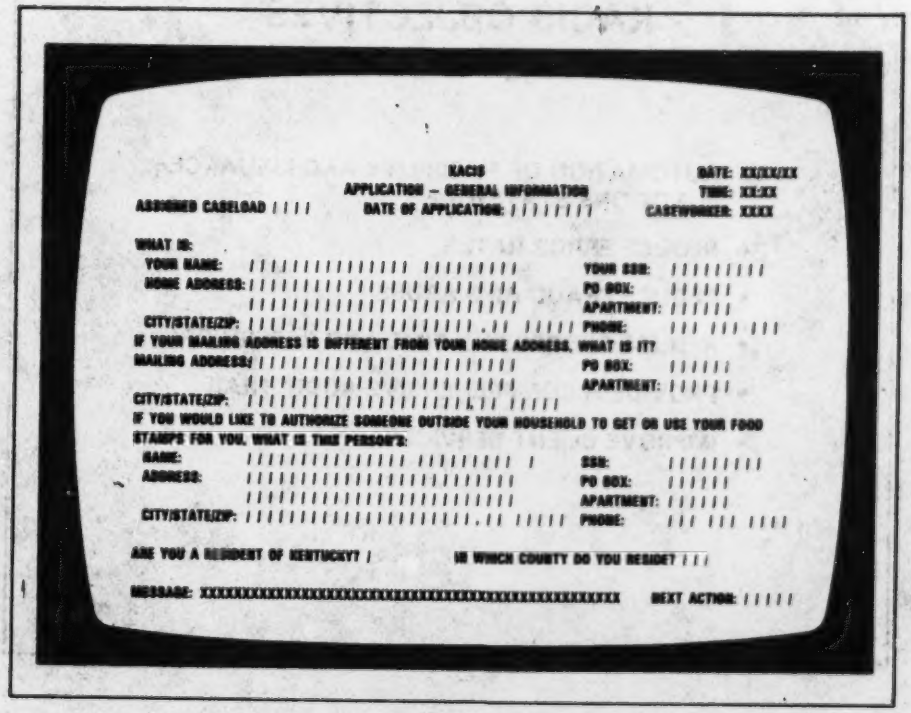


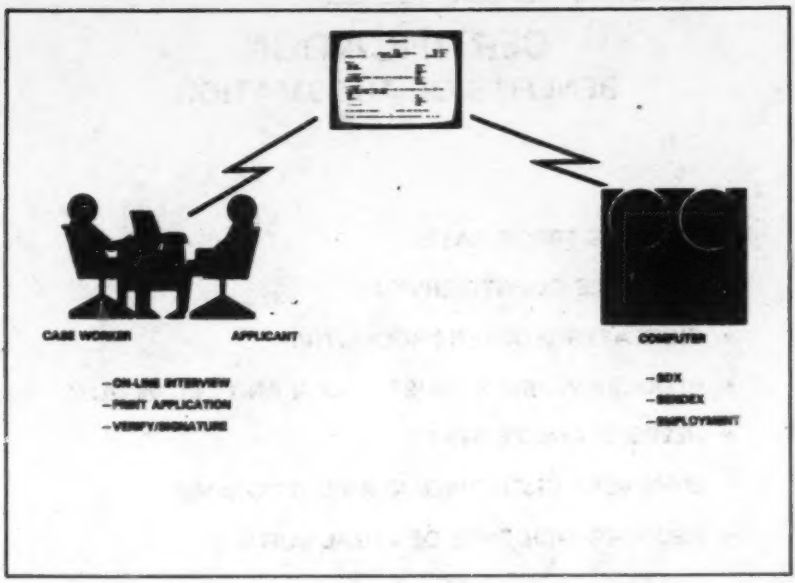
KACIS OBJECTIVES

- AUTOMATION OF ELIGIBILITY AND ISSUANCE FUNCTIONS STATEWIDE
- REDUCE ERROR RATES
- REDUCE FRAUD AND ABUSE
- REDUCE PROCESSING TIME AND PAPERWORK
- PROVIDE A COMPREHENSIVE AUDIT TRAIL
- IMPROVE CLIENT SERVICES

CERTIFICATION FEATURES

- CONVERSATIONAL ONLINE APPLICATION
- SYSTEM PROMPTING OF QUESTIONS TO BE ASKED
- PRE-SCREENING AT INTAKE
- CASE MANAGEMENT REPORTS
  - —BY FUNCTION
  - —BY CASE
- USER FRIENDLY EQUIPMENT
- REDUCTION OF PROCESSING TIME AND PAPERWORK
- AUTOMATED ELIGIBILITY DETERMINATION AND BENEFIT CALCULATION


KACIS
DATE: XX/XX/XX
APPLICATION – GENERAL INFORMATION
TIME: XX:XX
ASSIGNED CASELOAD
DATE OF APPLICATION:
CASEWORKER: XXXX
WHAT IS:
YOUR NAME:
YOUR SSN:
HOME ADDRESS:
PO BOX:
APARTMENT:
CITY/STATE/ZIP:
PHONE:
IF YOUR MAILING ADDRESS IS DIFFERENT FROM YOUR HOME ADDRESS, WHAT IS IT?
MAILING ADDRESS:
PO BOX:
APARTMENT:
CITY/STATE/ZIP:
IF YOU WOULD LIKE TO AUTHORIZE SOMEONE OUTSIDE YOUR HOUSEHOLD TO GET OR USE YOUR FOOD STAMPS FOR YOU, WHAT IS THAT PERSON'S:
NAME:
SSN:
ADDRESS:
PO BOX:
APARTMENT:
CITY/STATE/ZIP:
PHONE:
ARE YOU A RESIDENT OF KENTUCKY?
IN WHICH COUNTY DO YOU RESIDE?
MESSAGE: XXXX



FILE MATCHES

ON-LINE:

- WAGE RECORDS
- UNEMPLOYMENT INSURANCE
- ASSISTANCE PAYMENTS
- CHILD SUPPORT
- BENDEX
- SDX
- FOOD STAMPS
  - –DUPLICATE SOCIAL SECURITY NUMBER, NAME/BIRTHDATE
  - –DUPLICATE ADDRESS
  - –DISQUALIFIED
  - –PENDING
  - –ACTIVE
  - –CLAIM ESTABLISHED OR PENDING
  - –INCONSISTENCIES IN INFORMATION

BATCH: (WHEN AVAILABLE)

- RAILROAD RETIREMENT
- VETERANS ADMINISTRATION
- STATE EMPLOYMENT
- STATE TAX
- VEHICLE REGISTRATION
- PROPERTY VALUATION

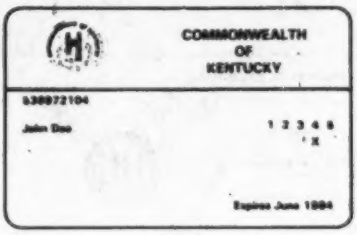
CERTIFICATION
BENEFITS OF AUTOMATION

- REDUCES ERROR RATES
- IMPROVES CLIENT SERVICES
- INCREASES WORKER PRODUCTIVITY
- REDUCES WORKER FRUSTRATION AND "BURN-OUT"
- HELPS STABILIZE STAFF
- ENHANCES CLIENT/WORKER RELATIONSHIP
- REDUCES INCIDENCE OF LEGAL SUITS

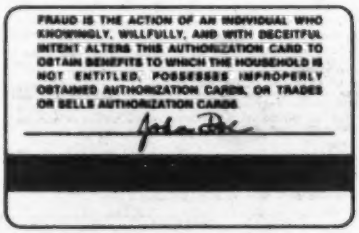
ISSUANCE FEATURES

- ID CARD ESPECIALLY DURABLE
- VERSION CODE ON ID CARD TO IDENTIFY VALID CARD
- COUPON PROTECTION WITH HARD COVERS AND BINDING
- MAGNETICALLY ENCODED CASE IDENTIFIER
- SINGLE SITE ID CARD AND COUPON PREPARATION
- STAGGERED ISSUANCE
- ALLOWS CASEWORKER TO SPECIFY DENOMINATIONS FOR RECIPIENT

FOOD STAMP IDENTIFICATION CARD

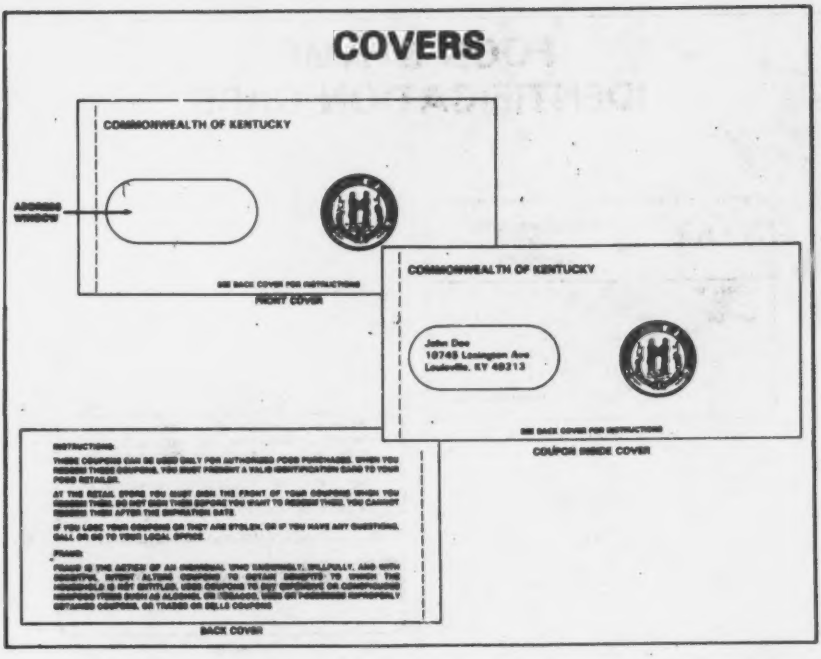


FRONT


FRAUD IS THE ACTION OF AN INDIVIDUAL WHO KNOWINGLY, WILLFULLY, AND WITH DECEITFUL INTENT ALTERS THIS AUTHORIZATION CARD TO OBTAIN BENEFITS TO WHICH THE HOUSEHOLD IS NOT ENTITLED, POSSESSES IMPROPERLY OBTAINED AUTHORIZATION CARDS, OR TRADES OR SELLS AUTHORIZATION CARDS.

BACK

COUPON

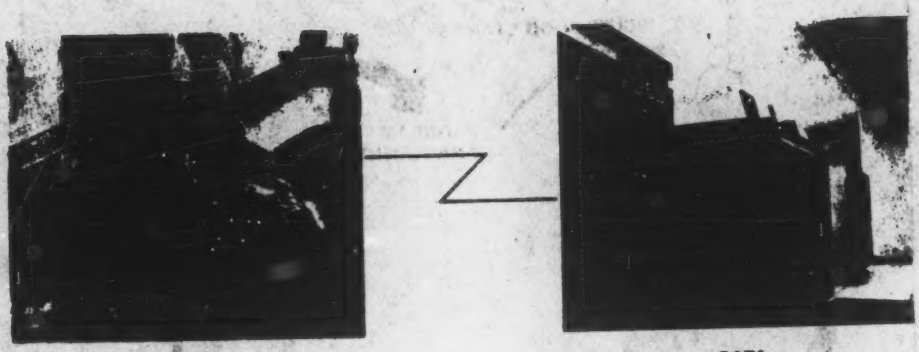


ISSUANCE BENEFITS

ADDITIONAL DENOMINATIONS

- **SINGLE SITE PREPARATION OF COUPONS AND ID CARDS**
- **ENCODED CASE IDENTIFIER ADDS SECURITY LEVEL TO ID CARD**
- **NO SENSITIVE COUPON STOCK**
- **EXPIRATION DATE ON COUPONS AND CARDS**
- **ENHANCED SECURITY**
- **AUTOMATION OF CROSS-CHECK BETWEEN ID CARD/COUPON/KACIS REDUCES FRAUD**

ELECTRONIC REDEMPTION

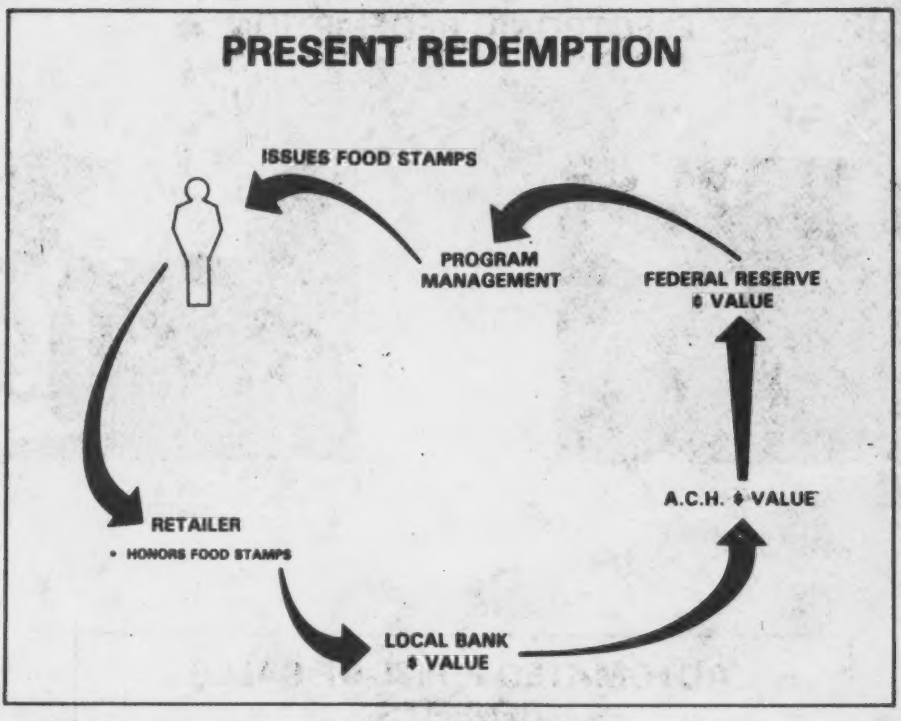


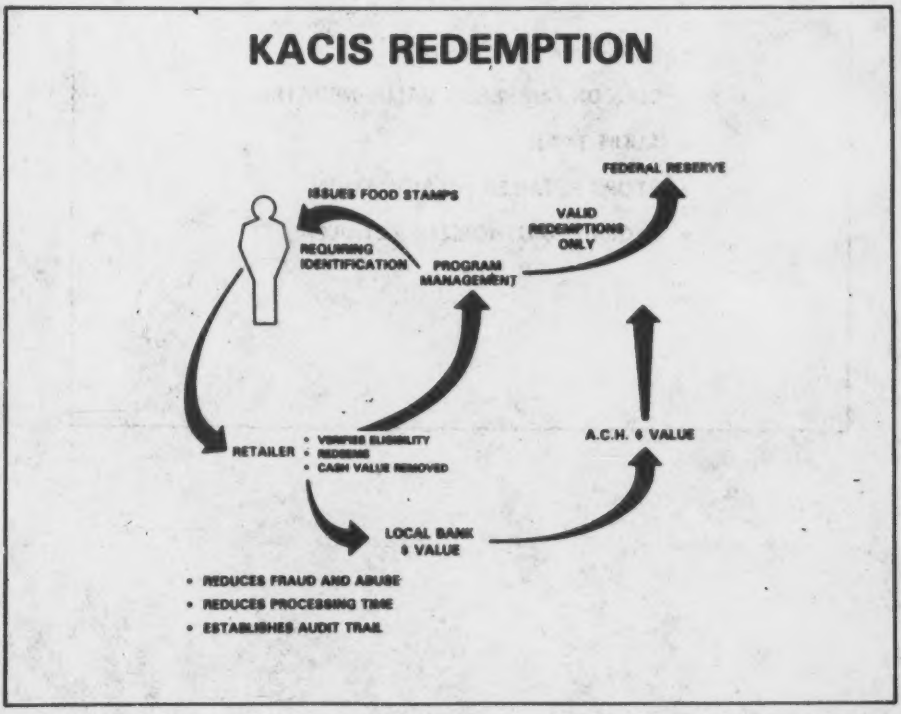
CHECKOUT LINE

DATA CENTER

AUTOMATED POINT-OF-SALES BENEFITS

- REAL-TIME VERIFICATION
- COUPON CURRENCY VALUE NEGATED
- AUDIT TRAIL
- STOPS RETAILER FALSIFICATION
- STOPS UNAUTHORIZED RETAILER


PRESENT REDEMPTION
ISSUES FOOD STAMPS
PROGRAM MANAGEMENT
FEDERAL RESERVE $ VALUE
A.C.H. $ VALUE
RETAILER
• HONORS FOOD STAMPS
LOCAL BANK $ VALUE


KACIS REDEMPTION
FEDERAL RESERVE
ISSUES FOOD STAMPS
VALID REDEMPTIONS ONLY
REQUIRING IDENTIFICATION
PROGRAM MANAGEMENT
RETAILER
• VERIFIES ELIGIBILITY
• REDEEMS
• CASH VALUE REMOVED
A.C.H. $ VALUE
LOCAL BANK $ VALUE
• REDUCES FRAUD AND ABUSE
• REDUCES PROCESSING TIME
• ESTABLISHES AUDIT TRAIL

ELECTRONIC FUND-TRANSFER BENEFITS

- ELIMINATES THIRD-PARTY FRAUD
- ELIMINATES UNAUTHORIZED RETAILER
- KACIS CONTROL

RECONCILIATION FEATURES

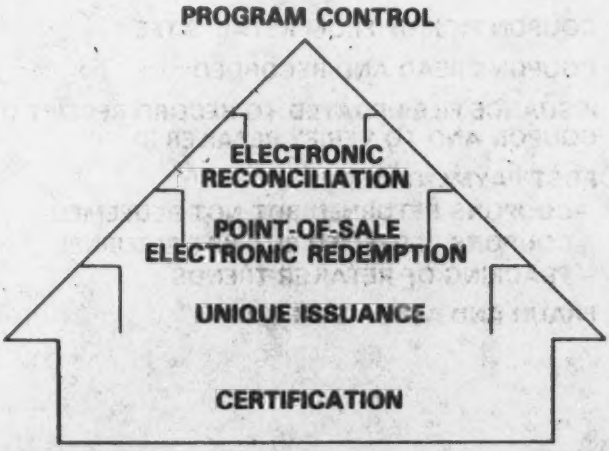
- COUPON PICK-UP FROM RETAIL SITES
- COUPONS READ AND RECORDED
- ISSUANCE FILE UPDATED TO RECORD RECEIPT OF COUPON AND TO VERIFY RETAILER ID
- POST PAYMENT AUDIT
  - —COUPONS RETURNED BUT NOT REDEEMED
  - —COUPONS REDEEMED BUT NOT RETURNED
  - —TRACKING OF RETAILER TRENDS
- FRAUD AND ABUSE DETECTION

29-880 O—84——9

RECONCILIATION BENEFITS

- TOTAL AUDIT RECORD
- COUPON RETURN AND STORAGE
- EARLY FRAUD/ABUSE DETECTION
- EARLY "PROBLEM" DETECTION
- ENHANCED MANAGEMENT REPORTING

KACIS



APPLICATION OF CURRENTLY AVAILABLE TECHNOLOGY TO FOOD STAMP PROGRAM CONTROL AND ACCOUNTABILITY

STATEMENT OF JAMES A. KRAUSKOPF, COMMISSIONER

NEW YORK CITY HUMAN RESOURCES ADMINISTRATION

I am Jack Krauskopf, Commissioner of the New York City Human Resources Administration. I appreciate the opportunity to appear before you today not only to discuss our continuing efforts to reduce errors and fraud in the Food Stamp Program, but also to discuss needed improvements to assure that all needy persons have enough to eat.

Federal food and welfare programs have attempted to eliminate hunger and malnutrition among the poor and needy in this country over the past several decades. However, inflation and recent cuts in entitlement programs have increased the vulnerability of low income families to poverty and malnutrition. For example, federal changes in the Food Stamp program made 37,100 people in New York City ineligible for benefits in 1981 and reduced the amount of benefits to the entire caseload in both 1981 and 1982.

The Food Stamp program, however, continues to occupy an important place in the network of social and health programs. It is one of the few programs that provides help to the working poor whose limited income has been eroded by inflation and threatened by rising unemployment. Over the last year the number of households in New York City receiving food stamps has increased by over 26,000, an increase of 6.2 percent. This month the food stamp caseload is at its highest point since January 1982. There are over 450,000 food stamp households containing more than one million individuals. Of these, approximately 300,000 are public assistance households; 63,000 are non-public assistance or working poor households; and over 86,000 are SSI or elderly and disabled households.

The magnitude and importance of this program makes efficient administration the highest priority. We have taken a number of steps to ensure that benefits are provided only to those households that are eligible and in a manner that minimizes the opportunities for fraud and abuse.

FRAUD PREVENTION

EPFT

New York City has made considerable progress in reducing the vulnerability of its Food Stamp program to fraud. One accomplishment in this area has been the successful operation of the Electronic Payment File Transfer System (EPFT) on a pilot basis on Manhattan's Upper West Side. EPFT replaces the existing paper system of disbursing public assistance benefits and food stamp Authorizations to Participate (ATPs) through the mail. Under EPFT approximately 10,000 clients, who reside in the pilot area, receive their benefits directly by presenting their magnetically encoded photo ID cards at participating bank branches and check cashing establishments.

EPFT eliminates the opportunity for theft in the postal system by removing negotiable paper documents that can be lost or stolen in the mail from the system. Since the pilot began in November 1981, the system has paid out over 350,000 benefits without the loss or theft of a single benefit.

EPFT is programmed to accept only one active photo-ID card per recipient. The situation under the current system, where more than one active ID card per recipient can be in use at a given time, is eliminated. If the card is lost, stolen of if another person tries to use someone else's card, a "hot" indicator is immediately placed on the file through the computer and no benefits can be disbursed. This protection and the photo and signature matches that the teller is required to perform prior to every transaction, make it virtually impossible for a non-authorized person to redeem someone else's benefits. Since EPFT was implemented in the pilot area no unauthorized person has successfully redeemed benefits.

Our evaluation of the EPFT pilot has clearly demonstrated that it is a superior method of delivering public assistance and food stamp benefits. It significantly improves services to clients, reduces the amount of fraud and reduces both programmatic and administrative costs. As a result, we have begun plans to expand EPFT citywide.

Once implemented Citywide EPPT is expected to save the city state and federal government $7.4 million annually, $1.1 million in administrative costs and $6.3 million in progammatic costs. The majority of the programmatic savings would be generated by the system's capacity to immediately stop benefits to closed cases. Administrative savings would result from the elimination of costs associated with printing and mailing checks and replacing benefits that are lost or stolen in the mail.

Audits

HRA has also taken other steps to make redemption agents responsible for all fraudulently negotiated ATPs. Existing contracts with food stamp vendors give HRA greater control over contract performance, increase the financial liability of parent companies for the actions of their subvendors, allow for greatly improved fraud detection and ensure clear evidentiary trails. When contractors do not meet contract provisions or when improper redemption occurs, the check cashier or bank is liable for the full face value of the ATP. This provides a strong economic incentive for vendor compliance.

In December 1981, HRA began auditing redemption outlets to ensure that they were adhering to their contractual obligations. Since then, HRA auditors have been auditing approximately 100 redemption sites each month to determine if tellers are requiring beneficiaries to sign the authorizations in their presence, checking the client's ID card, comparing signatures, recording the identification number on the card and ensuring that the expiration date has not passed. Every redemption outlet in the city is audited four times a year.

The rate of contractual violations determined by these audits has declined from 1.9 percent in December 1981 to 0.4 percent in September 1983. Incorrect redemptions have not been above 1 percent since December 1982, indicating that there has been a significant decline in the number of ATPs that are not redeemed in accordance with our contracts.

In addition to these on-site visits, HRA auditors are currently reviewing 500 redeemed ATPs each month to determine whether they have been processed in

accordance with contractual requirements. The incorrect redemption rate identified through these audits has also remained low; since January 1983 it has been below 1 percent.

The introduction of photo ID cards has resulted in a significant decline in the number of stolen ATPs cashed by unauthorized persons. The ID cards provide redemption outlets with a more accurate means of verifying that a client is in fact the intended recipient of the ATP. The entire food stamp caseload, with the exception of the homebound and disabled, has now been issued a photo ID card. As a result, we can now hold the redemption outlets responsible for all stolen ATPs that they cash.

Rapid Access Reconciliation System

We continue to be pleased with the results achieved by our Rapid Access Reconciliation System which was the first of its kind in the country. This system, which was implemented in October 1980, is helping us to substantially reduce what was in the past a costly form of fraud, the issuance of replacement ATPs for ATPs that were in fact, already cashed.

The Rapid Access Reconciliation System was developed in response to the dramatic increase in early 1979 in the number of recipients requesting a replacement ATP, claiming theirs was lost in the mail. At that time, it took 45 days after the month in which the ATP was issued to find out if it was cashed. Our studies indicated that about 12,500 recipients each month were getting both an original and replacement ATP under erroneous pretenses at an annual cost of $15 million. This problem was virtually eliminated three years ago with the implementation of this system.

The Rapid Access Reconciliation System enables us to retrieve cashed ATPs within three days. This, in combination with an 8 day rather than 30 day expiration on the ATPs, allows us to determine whether the recipient has transacted the original ATP prior to the issuance of a replacement. Since the system was implemented, the number of replacement ATPs issued as a result of fraud or forgery has declined from 7,000 a month to approximately 150.

ERROR RATE REDUCTION

New York City has also made significant progress in its effort to reduce errors and to keep ineligible households off the food stamp rolls. Through an ambitious quality control program, New York City has reduced its payment error rate from a high of 26.0 percent in July 1974 to 11.5 percent for the period from October 1981 to March 1983. Of the current error rate, more than two-thirds is attributable to incorrect information provided by the client, the remainder is attributable to agency errors.

Let me give you some examples of the administrative measures initiated to reduce the error rate:

- An extensive computer match program which matches our food stamp files against wage reporting files, such as New York State's Wage Reporting System, Unemployment Insurance Benefits, Social Security Administration files, prison records and 17 other files. Such computer matches provide a means of independently verifying the information provided by the recipient and of identifying unreported income.

- Use of a special checklist of error-prone factors for use by all workers conducting application and recertification to help them avoid frequently made errors.

- Audits of newly accepted and newly recertified cases in both Income Maintenance Centers and Food Stamp Offices to discover error patterns on a center by center basis and the provision of targeted training to workers making the errors.

Our efforts to further reduce the error rate have been hindered by existing federal law. I would like to take this opportunity to ask your support for two proposals that would significantly improve our ability to reduce errors in the Food Stamp program. The first, is to extend categorical eligibility to "mixed" food stamp households, those households that contain both public assistance and non-public assistance members. The second, is to make Monthly Reporting and Retrospective Budgeting (MRRB) optional.

Under current law, states have the option of implementing categorical eligibility for "pure" AFDC households whose gross income is below 130 percent of poverty. Categorical eligiblity is not extended to AFDC recipients who share a household with non-public assistance recipients. These AFDC recipients must continue to apply for food stamps with the other household members as a single household.

The exclusion of mixed households prevents us from maximizing the potential of categorical eligibility to simplify program administration and to reduce errors. It is precisely this type of food stamp household which is the most error prone. In New York City approximately 25 percent of our current error rate results from household composition and income errors associated with food stamp applications for these households.

Mixed food stamp households are error prone for two reasons. First, AFDC recipients often apply for assistance only for the public assistance members because they are unaware of the obligation to report the presence of, or information on, the non public assistance members. Second, the complexities of dealing with two programs with separate and often conflicting eligibility rules often confuse both recipients and eligibility workers resulting in errors.

We recommend that categorical eligibility be extended to the AFDC members of these "mixed" households and that the non public assistance members be permitted to apply as a separate household. Enactment of this proposal would help states administer the food stamp program more efficiently and reduce the amount of benefits issued errorenously.

Secondly, I urge you to support a measure that would make would make Monthly Reporting and Retrospective Budgeting optional.

New York City began implementing MRRB on June 1, 1983 for households with income from employment or unemployment compensation. By August it had been implemented for 18,500 cases. Our experience has indicated that Monthly Reporting and Retrospective Budgeting is not cost effective even when implemented for this limited group of households.

The process fails to provide more accurate and timely information on household income and composition than our existing procedures. In fact, because of the tremendous volume of paperwork involved, it creates a greater possibility for worker error thereby defeating its intended purpose.

In addition, clients have had trouble understanding and completing the forms that are mailed to them each month. As a result, the number of unreturned and incomplete forms has been high. In August, 13.8 percent of the forms were not returned and 8.0 percent were returned with incomplete responses. The majority of these households were probably eligible for food stamps; however, we would be required to close them under MRRB. Closing the case would create a hardship for the family and if these families reapplied, would result in additional administrative costs.

The implementation of MRRB has also resulted in significant increases in administrative costs. Additional staff are needed to process the monthly questionnaires, to verify the information and to rebudget the case when necessary. To support a full MRRB system the City must hire 261 additional staff members, 157 of whom have already been hired. In addition, there are considerable printing and mailing costs associated with the mailings that must be done each month. Our initial experience clearly indicates that these additional costs exceed the potential savings.

Our initial experience with MRRB reinforces that recent findings of the federally sponsored demonstration project in Illinois. An evaluation of the project indicated that MRRB failed to reduce errors and costs. More importantly, the study showed that it actually procuced an increase in both administrative and benefit costs. States should not be required to implement MRRB, which has been shown to be largely ineffective at reducing errors, instead they should be allowed to devote their resources to other techniques that are more likely to be effective in their state at reducing errors and costs.

I would also like to take this opportunity to urge you to support a measure that would make federal funds available again for outreach activities for the food stamp program. Without adequate outreach many poor families, who are

unaware of the program, are denied access to this critical source of assistance.

In January 1983, New York City implemented the Food Stamp Training Education Nurtition (T.E.N.) project to inform potentially eligible recipients about the program and to encourage their participation. The activities sponsored by the project include poster campaigns on the subways, media spots on the radio and in community newspapers, nutrition work shops, distribution of programmatic and eligibility information to community groups, and speaking and training engagements.

The project has been successful at reaching eligible families. Of the 73,938 people who applied for food stamps between February and June 1983, 90 percent indicated that had heard about the program through information sponsored by the project.

Finally, I would like to discuss the expansion of our efforts to collect monies from households where there has been an overpayment of food stamp benefits either through client or agency error. In order to comply with USDA regulations issued in April 1983, we are in the process of implementing a mechanism to recoup overpayments from future food stamp benefits. Recoupment will only be used when there is no offer from the client to repay or where an agreement to repay is not honored.

We are hiring additional staff to increase our efforts to identify cases where overpayments have been made. The staff will review cases where concealed income has been discovered through computer match techniques and cases where the difference in benefits payments between two months is greater than $35.

We have developed a computerized process to recoup the monies from the future benefits of open cases. The household's monthly food stamp benefit will be automatically reduced by an amount not to exceed 10 percent until the full amount of the overpayment is recovered. Full implementation of this mechanism will allow us to reduce the drain of resources from erroneous overpayment.

Thank you for the opportunity to come here today to discuss with you our efforts to eliminate fraud and reduce errors in the food stamp program. We have come a long way toward meeting our objectives. However, we will continue to evaluate our current efforts and aggressively pursue additional measures for improvement. I would greatly appreciate your help by supporting the proposals to make MRRB optional and to extend categorical eligibility to the AFDC members of mixed food stamp households. These changes would significantly enhance our ability to improve the administration of the food stamp program and to improve the delivery of benefits to needy households.

STATEMENT OF JOHN TABER, ASSOCIATE DIRECTOR, WASHINGTON OFFICE ON BEHALF OF DR. ROBERT L. SMITH, COMMISSIONER, ALASKA DEPARTMENT OF HEALTH AND SOCIAL SERVICES

My name is John Taber. I have come to speak today on behalf of Dr. Robert London Smith, Commissioner of the Alaska Department of Health and Social Services. The Department administers the Food Stamp program in Alaska along with the Medicaid, AFDC, and Energy Assistance programs and a wide range of other State and Federally financed programs of food, medical, financial and social assistance. Dr. Smith regrets being unable to be here himself, but the distances involved in coming are prohibitive. As a former staff member in Health and Social Services and present Associate Director for Human Resources of Governor Sheffield's Washington Office, I am familiar with Alaska's Food Stamp program and will be pleased to respond to your questions.

As you know, Mr. Chairman, from your own time spent in Alaska, our State offers some extraordinary challenges in the administration of programs that address the human needs of individual households and citizens. We who deliver services to Alaska's needy are acutely aware of the many features of Federal programs, for example, that presume ready access to clients. Alaska's vast geographical expanse, harsh weather conditions, severely limited transportation systems, tiny population, and cultural and linguistic variety all combine to sharply restrict that access. Those who are not familiar with our State are often astonished to learn that about one fourth of our food stamp clients live in isolated villages of 25 to 2500 inhabitants. More than 200 of these villages are not served by roads to the rest of the State and depend upon weekly or less

frequent plane service for mail, food delivery, transportation to medical facilities, and other services. In winter, weather conditions prevent air travel to certain villages for weeks at a time. In summer, some villages are virtually abandoned as all who are able travel to traditional fishing and hunting places in search of foods that are no longer available in their historic abundance. English is spoken by only a few people in many villages, particularly, those of the Eskimos.

Alaska's payment error rates have soared as these ever-present obstacles to efficient management have been exacerbated by staggering caseload increases paralleling the State's phenomenal population growth of the late 70's and early 80's.

Our caseload increased more than 100% during one recent eighteen month period as Alaska's "Boom or Bust" economy scaled down following oil pipeline construction.

Confronted with this environment, I would have to say that Alaska's Food Stamps program managers view with great concern the fiscal sanctions imposed by the Omnibus Budget Reconciliation Act of 1982. While we are extremely pleased to report that we have managed to cut our state-computed payment error rate in half in the annual period ending September 30, 1983 and that we are well below our target error rate for that period, we see insurmountable obstacles to achievement and maintenance of Federally mandated error levels in our environment, given the current program design.

We attribute our successes thus far to our aggressive

implementation of mandatory monthly reporting statewide, to a 26.5% increase in staffing within the last year for public assistance functions, to an extensive new program of home visit verification, to a well publicized new commitment to prosecution of fraud cases, and most of all to the sincere and dedicated efforts of staff and management within our Department, in the Office of the Governor, and in the State Legislature.

Within a very short time, our efforts will receive a major assist from a state-of-the-art automated Eligibility Information System which we expect to serve as a model to much of the rest of the nation. The creation and implementation of EIS has required a large part of our financial and human resources at all levels for many months, but will begin reaping significant benefits in income matching, client identification, program policy control, staff training, and mathematical accuracy within the next month or so. These gains will complement these already made through other means.

The big improvements have come, however, primarily in the State's urban areas. Over the long haul there will be constant error pressure from our rural areas so long as we must deal with unreliable mail service, different and confusing treatment of income and resources between Federal programs, a client population that does not speak English and has no linguistic or cultural equivalents for such terms as "verification," a forced dependence upon village agents to translate and communicate to clients eligibility concepts that even they frequently misunderstand, concepts of a household that do not fit the Federal mould, food costs that

lead people to try desperate measures, and shortages of competent, educated people to administer conceptually complex programs.

Our good faith efforts have produced major improvements in quality control and we appreciate the relaxation of Federal standards that has allowed us to take some of these steps. Much more must be done to standardize Federal requirements among programs and to release State agencies to implement programs in ways that make sense in their service area, however. Certainly in Alaska, that will be an important part of effective and efficient program management.

Fiscal Sanctions now being imposed in the major public assistance programs are predicated on the theory that the States are in a position to correct the administrative deficiencies that lead to payment errors. So long as States such as ours are shackled by Federal regulatory schemes that do not fit their program environment, those sanctions will be seen more as a means of transferring program costs to the state than as an incentive for better performance. We want to improve our administration record a lot more, but we need more control of the program to make that happen. Our people need fewer regulation changes, standardized eligibility requirements, more realistic processing time frames, and quality control expectations that make sense where we work, to name a few improvements. When these things happen, we will be in a position to administer vital programs efficiently and at the lowest cost to the public.

Thank you, Mr. Chairman. I will be pleased to respond to questions.

TESTIMONY OF JOHN W. BODE

DEPUTY ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES

U. S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, the Reagan Administration appreciates the opportunity to appear before the Subcommittee today to hear about State implementation of food stamp reforms recently enacted by Congress. This is an important subject, and it is one which has captured much of our attention and effort. You, Mr. Chairman, and other members of the Senate Agriculture Committee had a strong voice in shaping these reforms, and your continuing interest is gratifying.

Responding to problems which became evident as the program expanded rapidly during the 1970's, Congress has approved three food stamp laws since 1981. These are:

1. P.L. 97-35, the Omnibus Budget Reconciliation Act of 1981, approved on August 13, 1981;

2. P.L. 97-98, the Agriculture and Food Act of 1981, approved on December 22, 1981; and

3. P.L. 97-253, the Omnibus Budget Reconciliation Act of 1982, approved on September 8, 1982.

These laws contained about 90 changes in food stamp policies or procedures. Some of the changes were far reaching such as the three changes in household definition, wage matching, photo identification, mandatory checks for duplicate participation, proration of first month allotments with no issuance of less than $10, and new requirements for excludable energy assistance. There were approximately 20 interim final or final regulation packages which had to be digested and implemented by the State agencies, sometimes within a relatively short

time period.

In general, Mr. Chairman, we believe the States have begun to meet the need for tighter, more targeted program administration. With annual overpayments still reaching one billion dollars, however, we still face a serious problem. States currently lack strong incentives to improve food stamp administration since benefits are one hundred percent federally funded. Actual error rates are lower in the AFDC and Medicaid Programs, where states share program costs.

We have begun to assess liabilities, as first mandated during the Carter Administration, for excess erroneous payments. These amounts are moderate, totalling only $9 million or .0008 of program costs.

States are beginning to reduce their error rates. For example, states recently receive incentive funding for substantially lowering their error rate. With $1 billion in overpayments, however, we need to accelerate our efforts to reduce waste. This can be done by enactment of our proposal to set an error rate target of 3 percent which would match the current AFDC and Medicaid error goals. Our most recent national error rate for the period October 1981 to March 1982 is 12.18 percent of all benefits issued in error. Counting only ineligibles and overissuances (which is the basis for the 9 percent-7 percent-5 percent limitation beginning on October 1, 1982), this latest period indicates a national average of 9.79 percent.

As the effects of the 1981 and 1982 statutory changes are felt, we expect to see a continued decline in error rates. These statutory reforms, such as monthly reporting and wage matching, as well as our regulatory reforms, have given states an impressive array of management tools to reduce erroneous issuance.

Finally, Mr. Chairman, just a word about monthly reporting and retrospective budgeting (MR/RB). As you will recall, MR/RB was to have been implemented by the States on October 1, 1983. However, a 90-day delay was included in the recent Continuing Appropriations Resolution. We continue to believe that MR/RB is an essential and viable tool in the battle against error and fraud in the Food Stamp Program, especially in view of our abililty to grant waivers for portions of the caseload for which MR/RB may not realize expected savings. Our most recent implementation status report indicates that 18 States had implemented MR/RB on October 1, 1983, while 31 additional States will achieve full implementation by January 1, 1984. Only four States have indicated to us that they may not achieve total implementation of MR/RB by January 1, 1984.

This concludes my formal remarks, Mr. Chairman. I would like to thank you for your obvious concern about maintaining the integrity of the Food Stamp Program and to thank the many States whose daily efforts determine the quality of food assistance provided across the country.

29-880 O—84——10

PREPARED STATEMENT
OF
ANTHONY GABRIEL, DEPUTY INSPECTOR GENERAL,
U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, I am Anthony Gabriel, Deputy Inspector General of the Department of Agriculture. I appreciate the opportunity to appear before this committee and provide comments on our recent audit initiatives for detecting and correcting fraud, waste, and abuse in the Food Stamp Program (FSP). We have reviewed the implementation of 75 percent funding for fraud control activities and wage matching in various States.

We have recently discussed the audit results with the Food and Nutrition Service (FNS) and requested the agency to provide us with responses. However, at this point, sufficient time has not elapsed for them to do so. For this reason, we will provide comments of a general nature concerning the audits. Then, if the committee desires, we will provide complete details when the audits are finalized.

The Office of Inspector General's (OIG) support of legislation for both fraud control activities and wage matching is a matter of record dating back to the Food Stamp Act of 1977 and the 1980 Amendments to the Act. Essentially, the Congress through subsequent legislation broadened the authorities of the Secretary and increased the financial incentives to the States in both areas. We have made suggestions to FNS in issuing the implementing regulations; worked closely with FNS and a number of State and local agencies; and with respect to wage matching, carried out an extensive demonstration project through the President's Council on Integrity and Efficiency. We had hoped that our efforts, as well as those of other parties concerned at Federal, State, and local levels, would have produced more significant results. However, as our recent audits disclosed, there is a disparity between what has actually been achieved and the improvements Congress intended.

Enhanced Funding for Fraud Control

The current Administration has assigned a high priority to the control of fraud in the Food Stamp Program (FSP). The goal is the establishment of programs and systems to prevent fraud, but in addition to that, major emphasis is being given to the development of programs and systems for investigation and prosecution of food stamp fraud. To assist States in this effort, the Food and Nutrition Service (FNS) provides 75 percent enhanced funding for activities relating to investigation and prosecution of fraud and the establishment and collection of fraud claims. We made an overall audit review of the FNS, State, and county food stamp fraud control activities and of the contribution of enhanced Federal funding in 10 States - Arizona, California, Florida, Illinois, New Jersey, New York, Ohio, Oregon, Texas, and Washington. These States account for 61 percent of the total reimbursement under the 1982 enhanced funding. We concluded that while some advances have been made and some innovative techniques are being utilized to further the goals of the enhanced funding program, more needs to be done in all States to better ensure the success of the program.

During our audit, we found some positive factors which indicate a growing responsiveness in the attempt to control fraud in the FSP. FNS has conducted seminars on the subject around the country. The seminars have been well attended, informative, and relevant. Oregon uses a State income tax intercept to collect claims. Imaginative, highly successful collection techniques such as this should, in our opinion, receive greater emphasis. Some States, such as Texas and Florida, use prosecution extensively. Also, we noted that many States and counties were in the process of developing computer systems to enhance their fraud control capabilities.

In contrast, some States routinely claimed 75 percent of costs for activities that did not qualify for enhanced funding. Usually these were for noninvestigative, FSP activities. In other cases, States allocated costs that were properly chargeable to other Federal programs. Also, FNS regulations allow only two methods of establishing claims for intentional FSP violation--administrative hearing and prosecution. Both are expensive, and time-consuming, and have been only partially effective. Generally, administrative hearings were not effective because there were:

--Considerable delays between the identification of suspected fraud and the administrative fraud hearing.

--Large backlogs of cases awaiting hearings.

--Inadequate staffing levels to handle the number of hearings required.

--Costly and time-consuming processes involved in holding hearings.

--Failures in recipients meeting scheduled appearances.

--Delays in decisionmaking and recipients already withdrawn from the program; therefore, disqualification became an ineffective action.

The prosecution process often does not achieve important objectives, such as program disqualification and adequate restitution because of the low priority assigned to food stamp fraud cases, delays in the prosecution process and large backlogs due to overloaded court systems. Finally, there have been limited efforts to collect food stamp fraud claims. These efforts are further limited by inadequate information and accounting systems which prevent the effective monitoring of disqualifications and collections.

Implementation of Wage Matching

The Agriculture and Food Act of 1981 mandated that wage matching be implemented by each State Agency (SA) no later than January 1, 1983.

None of the 15 SAs we reviewed were in full compliance with the regulations. They had not completed a wage match which met regulatory requirements or taken proper followup and corrective

action on wage match results. We believe this situation prevails in most States and that wage matching in 1983 will not reach its potential in reducing improper benefit issuances due to income errors.

The primary reason for noncompliance was that the various SA ADP systems did not have statewide participation data on file or proper programming for efficient wage matching. SAs also cited insufficient staff as a factor in being unable to comply with wage matching.

We evaluated the FSP wage matching activities in 4 of the 12 States that do not require employers to report wages paid to individual employees for each quarter. Under the current law, these States have no alternative but to wage match with Social Security Administration (SSA) data. Usually this data is not current; therefore, it has limited value in administering food stamp participation. However, some of these States have alternative wage sources available to them that are more current than SSA data, such as State tax records.

FNS recognized that some wage request States had more current earned income data available from various agencies within their States than that which was available from SSA. FNS officials informed us that they had developed and proposed new legislation to allow wage request SAs to use alternative wage sources if that source of data is better than SSA data. We support this proposal and recognize its benefits.

OIG believes that more Federal oversight is needed in the form of stronger regulations and monitoring of SA compliance if the results Congress intended are to be obtained. Also, the Department will have to take a stronger position in resolving noncompliance by imposing fiscal sanctions against those States that are not in compliance.

Mr. Chairman, this concludes my remarks. Thank you.

TESTIMONY OF

CARL MANKOWITZ, M.D.
ACTING DIRECTOR
ILLINOIS DEPARTMENT OF PUBLIC AID

I APPRECIATE THE OPPORTUNITY TO SHARE WITH THE COMMITTEE THE EXPERIENCE WE HAVE HAD IN ILLINOIS IN IMPLEMENTING RECENT FOOD STAMP PROGRAM REFORMS AND HOPE THAT THE INFORMATION WILL BE HELPFUL IN YOUR DELIBERATIONS.

IN 1977, ILLINOIS MADE A MAJOR COMMITMENT TO THE IMPROVEMENT OF INCOME TRANSFER PROGRAMS ADMINISTERED BY THE ILLINOIS DEPARTMENT OF PUBLIC AID. THIS EFFORT IS ONGOING. OUR PERFORMANCE OVER THE PAST SEVEN YEARS DEMONSTRATES THE ABILITY OF A STATE TO ENSURE THAT THE ELIGIBILITY AND PAYMENT DECISIONS IT MAKES CAN BE DRAMATICALLY IMPROVED.

TOO FREQUENTLY STATES ARE CHARGED WITH NOT CARING HOW THEY SPEND FEDERAL DOLLARS. THIS CHARGE IS LEVIED MOST FREQUENTLY AT THE FOOD STAMP PROGRAM BECAUSE ALL OF THE DISTRIBUTIVE FUNDS ARE FEDERAL. LET ME ASSURE YOU, HOWEVER, THAT ILLINOIS TAXPAYERS DEMAND THAT WE IN SPRINGFIELD SPEND THEIR FEDERAL TAX DOLLARS NO LESS WISELY THAN WE SPEND STATE TAX DOLLARS.

LIKE YOU, I AM AWARE THAT FOOD STAMP ERRORS, AS MEASURED BY THE QUALITY CONTROL SYSTEM, ARE HIGHER THAN THOSE IN THE AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) AND MEDICAID PROGRAMS. SOME HAVE CLAIMED THAT THE ERROR RATE IS HIGHER BECAUSE THE STATE HAS FEWER DOLLARS INVESTED IN THE PROGRAM. WE WHO ADMINISTER ALL THREE PROGRAMS DISAGREE. WE BELIEVE THAT THERE ARE OTHER DIFFERENCES WHICH ACCOUNT FOR THE HIGHER ERROR RATE.

UNLIKE THE CATEGORICAL PROGRAMS, THE FOOD STAMP PROGRAM MEASURES FINANCIAL NEED WITHOUT REGARD TO AGE, DISABILITY OR BLINDNESS, OR THE PRESENCE OF DEPENDENT CHILDREN. THIS IS AN ADMIRABLE AND NECESSARY FEATURE OF THE PROGRAM SINCE HUNGER DOES NOT LIMIT ITSELF TO THESE NARROW CATEGORIES. LET US NOT OVERLOOK, HOWEVER, THAT THIS VERY DIFFERENCE MEANS THAT THE FOOD STAMP PROGRAM EMBRACES A NEEDY POPULATION WHICH IS OFTEN MORE MOBILE, MORE LIKELY TO HAVE EARNED INCOME, AND MORE LIKELY TO EXPERIENCE CHANGE THAN ARE THE POPULATIONS SERVED BY THE OTHER FEDERALLY ASSISTED PROGRAMS. THOSE OF US

INVOLVED IN THE DEVELOPMENT OF CORRECTIVE ACTION PROGRAMS CAN TELL YOU THAT THESE CHARACTERISTICS ARE THE ONES WHICH ARE MOST LIKELY TO CAUSE ERROR.

ANOTHER IMPORTANT DIFFERENCE IS THE LACK OF STABILITY IN THE FOOD STAMP PROGRAM. SINCE THE ENACTMENT OF THE FOOD STAMP ACT OF 1977, THERE HAS BEEN NO PERIOD OF TIME WHEN STATE AGENCIES HAVE NOT BEEN INUNDATED WITH CHANGING FEDERAL STATUTES AND REGULATIONS. MOST OF THESE CHANGES ARE AIMED AT IMPROVING THE INTEGRITY OR EFFICIENCY OF THE PROGRAM. WE APPRECIATE THE ADDITIONAL FLEXIBILITY AND ADMINISTRATIVE TOOLS THAT YOU HAVE PROVIDED TO MEET THESE GOALS. OUR CASEWORKERS, HOWEVER, WOULD ARGUE THAT THEY DO NOT HAVE THE TIME TO LEARN ONE SET OF RULES COMPLETELY BEFORE THEY ARE CONFRONTED WITH A NEW AND SUPPOSEDLY BETTER SET. EVEN THE SWEEPING CHANGES THAT THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981 MADE IN THE AFDC PROGRAM PALE IN COMPARISON TO THE NEVER ENDING CHANGES IN THE FOOD STAMP PROGRAM.

ONE FINAL AND ESSENTIAL DIFFERENCE EMANATES FROM THE NATIONAL PERSPECTIVE OF THE FOOD STAMP PROGRAM. BECAUSE THE SAME STANDARDS AND RULES MUST APPLY TO EVERY JURISDICTION, THE ABILITY TO TAILOR CORRECTIVE ACTION MEASURES TO A STATE'S PARTICULAR NEEDS IS CURTAILED. MUCH HAS BEEN DONE TO GIVE STATES ADDITIONAL FLEXIBILITY BUT WE STILL HAVE A LONG WAY TO GO.

SPECIFICALLY, I WOULD LIKE TO ADDRESS SEVERAL LEGISLATIVE CHANGES THAT CONGRESS HAS ENACTED RECENTLY AND THE EFFECT THESE CHANGES HAVE HAD ON FOOD STAMP RECIPIENTS IN ILLINOIS AND THE DEPARTMENT OF PUBLIC AID. MONTHLY REPORTING AND RETROSPECTIVE BUDGETING (MRRB) WAS FIRST USED IN ILLINOIS IN JULY 1979. AT THAT TIME, ILLINOIS LIMITED ITS APPLICATION TO THOSE AFDC RECIPIENTS WHO HAD EARNED INCOME. THE POLICY HAD A DRAMATIC EFFECT IN REDUCING ERRORS RELATED TO EARNED INCOME; AGENCY CAUSED BUDGETING ERRORS DROPPED 75%.

RECIPIENTS WERE CAREFULLY ENROLLED IN THAT FIRST REPORTING SYSTEM THROUGH PERSONAL CASEWORKER CONTACT AND WERE ABLE TO ADAPT TO THE NEW EXPECTATIONS. TO MITIGATE THE ADVERSE EFFECTS OF RETROSPECTIVE BUDGETING WHEN A RECIPIENT LOST EMPLOYMENT, ILLINOIS CHOSE TO SUPPLEMENT SUCH A PERSON'S GRANT IF HER

COMBINED EARNINGS (LESS EMPLOYMENT EXPENSES) AND AFDC GRANT FOR THE CURRENT MONTH WERE LESS THAN 80% OF AN AFDC GRANT FOR A FAMILY OF THE SAME SIZE WITH NO INCOME.

ILLINOIS THEN CONDUCTED A DEMONSTRATION PROJECT TO TEST THE EFFICACY OF MONTHLY REPORTING AND RETROSPECTIVE BUDGETING. THIS PROJECT WAS JOINTLY FUNDED BY THE DEPARTMENTS OF AGRICULTURE AND HEALTH AND HUMAN SERVICES. THE OPERATIONAL PHASE OF THE PROJECT SPANNED THE PAYMENT MONTHS OF OCTOBER 1981 THROUGH SEPTEMBER 1982. ONLY TWO OFFICES IN THE STATE PARTICIPATED IN THE PROJECT. EXCEPT FOR A CONTROL GROUP, ALL AFDC RECIPIENTS AND ALL FOOD STAMP RECIPIENTS WHO WERE RECEIVING AFDC AND WERE RECEIVING BENEFITS IN THE PROJECT AREAS WERE SUBJECT TO MRRB.

WE BELIEVED THAT THE ONLY PRACTICAL WAY ILLINOIS COULD USE SUCH A SYSTEM ON A STATEWIDE BASIS FOR ALL RECIPIENTS WOULD BE THROUGH THE USE OF A COMPLETELY AUTOMATED SYSTEM; THEREFORE, THE MRRB SYSTEM WE EMPLOYED IN THE DEMONSTRATION PROJECT WAS HEAVILY AUTOMATED. THE SYSTEM GENERATED AND MAILED THE REPORTS, CONTROLLED THE SUBSEQUENT RECEIPT OF MONTHLY REPORTS, GENERATED AND MAILED REMINDER NOTICES AND ADVERSE ACTION NOTICES TO APPROPRIATE RECIPIENTS, AUTOMATICALLY DETERMINED CONTINUING ELIGIBILITY AND PAYMENT AMOUNTS BASED ON INFORMATION CONTAINED IN THE MONTHLY REPORTS, AND GENERATED MANAGEMENT REPORTS.

ALTHOUGH THE FINAL EVALUATION OF THE PROJECT IS NOT YET AVAILABLE, PRELIMINARY FINDINGS SUGGEST THAT MRRB SYSTEMS ARE NOT A PANACEA FOR THE PROBLEMS CONFRONTING US TODAY. WHEN MRRB SYSTEMS ARE APPLIED TO THE TOTAL CASELOAD, INSTEAD OF TARGETTED GROUPS, ADMINISTRATIVE COSTS ARE INCREASED SIGNIFICANTLY WITHOUT PROVIDING SUFFICIENT BENEFITS TO JUSTIFY THE ADDITIONAL COST. IN OUR DEMONSTRATION PROJECT, ONGOING ADMINISTRATIVE COSTS ROSE AT LEAST 5%. THERE WERE ADDITIONAL ADMINISTRATIVE COSTS THAT ARE NOT INCLUDED IN THAT 5% FIGURE THAT RESULTED FROM THE MANY HOURS OF LABOR SPENT TO CORRECT SYSTEM FAILURES AND DEFICIENCIES DURING THE PROJECT. DESPITE THOSE EXPENDITURES, QUALITY CONTROL ERRORS DID NOT GO DOWN AND AVERAGE BENEFIT LEVELS ROSE SLIGHTLY.

MOST IMPORTANTLY WE DISCOVERED THE SEVERE AND NEGATIVE IMPACT THIS AUTOMATED SYSTEM HAD ON OUR ABILITY TO EFFECTIVELY ADMINISTER OUR PROGRAMS AND IMPLEMENT POLICY. WE HAD CREATED AN ULTRA-SOPHISTICATED SYSTEM IN TWO OF OUR OFFICES THAT WE THOUGHT WOULD STREAMLINE ELIGIBILITY DETERMINATIONS AND REDUCE ERROR. WE WERE ABSOLUTELY WRONG.

THE COMPLEXITIES OF THAT AUTOMATED SYSTEM CONSUMED THE LOCAL OFFICES AND BECAME THE DRIVING FORCE BEHIND OUR DECISIONS FOR THOSE OFFICES. ROUTINE POLICY CHANGES THAT WERE IMPLEMENTED IN THE REST OF THE STATE DURING THE LIFE OF THAT PROJECT COULD NOT BE IMPLEMENTED IN THE TWO TEST OFFICES. OUR ABILITY TO DELIVER BENEFITS TO NEEDY AND ELIGIBLE FAMILIES WAS HAMPERED. THE SYSTEM WAS SO COMPLEX THAT EVEN A MINOR CHANGE TO A COMPUTER PROGRAM COULD HAVE SERIOUS AND UNTOWARD REPERCUSSIONS. AS WE APPROACHED THANKSGIVING, THE SYSTEM AUTOMATICALLY STOPPED BENEFITS TO ALMOST 1000 FAMILIES, 90% OF WHOM HAD COMPLIED WITH THE SYSTEM'S REQUIREMENTS AND WERE, IN FACT, ELIGIBLE. UNFORTUNATELY, WE COULD NOT DETERMINE WHICH OF THESE FAMILIES WERE INELIGIBLE. WE WERE FORCED TO UNPLUG ALL OF THE AFFECTED FAMILIES FROM THE MRRB SYSTEM, MANUALLY RESTORE THEIR BENEFITS, AND RE-ENROLL THEM IN THE SYSTEM IN A SUBSEQUENT MONTH.

ILLINOIS IS A STRONG ADVOCATE OF COMPUTERIZED SUPPORT SYSTEMS AND USES THEM WITH GREAT SUCCESS. IN RETROSPECT, I BELIEVE THAT OUR AUTOMATED MRRB SYSTEM COULD NOT SUCCEED BECAUSE IT ATTEMPTED TO ACCOMPLISH AN IMPOSSIBLE GOAL UNDER CURRENT FEDERAL STATUTES; IT TRIED TO MESH THE COMPLICATED RULES AND REGULATIONS THAT GOVERN THE FOOD STAMP AND AFDC PROGRAMS. GIVEN THE POLICY DIFFERENCES BETWEEN THE TWO PROGRAMS AND THE CHANGES THAT NOW OCCUR ON AN ALMOST ROUTINE BASIS, PERHAPS NO COMPUTER PROGRAM CAN BE CREATED TO AUTOMATICALLY DETERMINE ELIGIBILITY AND PAYMENT LEVELS.

NONETHELESS, I CONTINUE TO BELIEVE THAT MONTHLY REPORTING AND RETROSPECTIVE BUDGETING IS A USEFUL CONCEPT AND AN EFFECTIVE ADMINISTRATIVE TOOL WHEN USED SELECTIVELY AT STATE OPTION. IN ILLINOIS, RETROSPECTIVE BUDGETING IS CURRENTLY USED ACROSS THE BOARD IN THE AFDC AND FOOD STAMP PROGRAMS EXCEPT WHERE STATUTORILY PROHIBITED. MONTHLY REPORTING, ON THE OTHER

HAND, IS ONLY USED IN CIRCUMSTANCES WHERE IT PROVES COST EFFECTIVE. OUT OF 425,000 FOOD STAMP HOUSEHOLDS, 54,000 REPORT MONTHLY. OUT OF 240,000 AFDC HOUSEHOLDS, 37,000 REPORT MONTHLY. AS PART OF OUR CORRECTIVE ACTION PLANNING, WE ADD AND SUBTRACT GROUPS FROM THOSE REQUIRED TO PARTICIPATE IN THE SYSTEM.

WE HAVE TAKEN ADVANTAGE OF THE SECRETARIES' AUTHORITY TO WAIVE THE MONTHLY REPORTING REQUIREMENT IN THOSE SITUATIONS WHERE IT IS NOT COST EFFECTIVE OR WHERE IT IS NECESSARY TO CONFORM FOOD STAMP REQUIREMENTS WITH THOSE USED IN THE AFDC PROGRAM. THIS WAIVER PROCESS, HOWEVER, IS TIME CONSUMING AND REQUIRES THE STATE TO USE QUALITY CONTROL DATA AND PROJECTIONS IN WAYS THAT I BELIEVE WERE NEVER INTENDED. IT WOULD BE MUCH EASIER IF STATES COULD ELECT TO USE MONTHLY REPORTING AND RETROSPECTIVE BUDGETING, TOGETHER OR SEPARATELY, IN THEIR EFFORTS TO REDUCE ERROR.

CONGRESS HAS MANDATED THAT STATES PAY A FISCAL SANCTION IF THEY DO NOT REDUCE QUALITY CONTROL ERRORS TO PRESCRIBED LEVELS. IF MRRB SYSTEMS ASSIST STATES IN ACHIEVING THAT GOAL, STATES WILL GLADLY USE THEM WHERE THEY ARE EFFECTIVE. IF THEY FAIL TO USE SUCH SYSTEMS ALTOGETHER AND ALSO FAIL TO REDUCE THEIR ERROR RATES, THEY WILL HAVE TO PAY THE SANCTIONS THAT ACCOMPANY SUCH A FAILURE. IT SEEMS THAT CONGRESS HAS NO NEED TO MANDATE THE USE OF PROCEDURAL TECHNIQUES TO REDUCE ELIGIBILITY AND ISSUANCE ERRORS. IT IS SUFFICIENT FOR CONGRESS TO CREATE ELIGIBILITY REQUIREMENTS AND PERFORMANCE STANDARDS FOR THE STATES TO FOLLOW. LET US USE OUR MANAGEMENT EXPERIENCE TO MEET THOSE STANDARDS WITHOUT PRESCRIBING BY STATUTE HOW WE WILL MEET THEM.

ILLINOIS STRONGLY SUPPORTS THE INCENTIVES AND INCREASED FLEXIBILITY CONGRESS HAS GIVEN STATES TOWARD THE RECOVERY OF FOOD STAMP OVERISSUANCES. I WOULD LIKE TO DRAW TO YOUR ATTENTION SEVERAL SITUATIONS WHICH CONTINUE TO IMPEDE OUR EFFORTS IN THIS AREA.

STATES ARE CURRENTLY PROHIBITED FROM REDUCING A FOOD STAMP ALLOTMENT TO RECOVER AN OVERISSUANCE THAT WAS CAUSED BY AGENCY ERROR UNLESS THE RECIPIENT AGREES TO THAT METHOD OF REPAYMENT. THIS PROHIBITION DOES NOT EXIST IN THE AFDC AND SSI PROGRAMS AND SHOULD NOT EXIST IN THE FOOD STAMP PROGRAM. I UNDERSTAND WHY A STATE SHOULD NOT RECEIVE AN INCENTIVE PAYMENT FOR RECOVERING

AN AGENCY CAUSED OVERISSUANCE BUT THIS RESTRICTION SHOULD NOT PRECLUDE A STATE FROM RECOVERING AN AGENCY CAUSED OVERISSUANCE BY REDUCING FUTURE ALLOTMENTS.

MORE OFTEN THAN NOT, FOOD STAMP OVERISSUANCES SPAN MORE THAN ONE MONTH. FOR INSTANCE, A RECIPIENT WHO FAILS TO REPORT EARNED INCOME MAY NOT BE DETECTED FOR SIX MONTHS OR LONGER. IN ORDER TO ESTABLISH A CLAIM UNDER CURRENT REGULATIONS AGAINST SUCH A HOUSEHOLD AND BEGIN RECOVERY ACTIVITY, A WORKER MUST FIRST CALCULATE THE AMOUNT OF THE OVERISSUANCE. WORKERS DREAD SUCH A CHORE. THEY CANNOT USE CURRENT CIRCUMSTANCES TO ESTIMATE THE AMOUNT OF THE OVERISSUANCE. THEY MUST COLLECT AND VERIFY THE HOUSEHOLD'S CIRCUMSTANCES FOR EACH OF THE MONTHS IN WHICH THE OVERISSUANCE OCCURRED. THEY MUST THEN INDIVIDUALLY COMPUTE THE CORRECT FOOD STAMP ALLOTMENT FOR EACH OF THE AFFECTED MONTHS. FINALLY, THEY MUST COMPARE THE ISSUANCE THE RECIPIENT RECEIVED EACH MONTH WITH THE ALLOTMENT THE RECIPIENT SHOULD HAVE RECEIVED TO ARRIVE AT THE TOTAL OVERISSUANCE. IF THE RECIPIENT WAS RECEIVING AFDC SIMULTANEOUSLY, THE CALCULATIONS ARE EVEN MORE COMPLEX BECAUSE THE AFDC GRANT MUST ALSO BE COMPUTED FOR EACH OF THOSE MONTHS.

ALTHOUGH THE ABOVE SCENARIO RESULTS IN THE MOST ACCURATE REFLECTION OF THE OVERISSUANCE INVOLVED, IT ALSO CAUSES SO MUCH ADDITIONAL WORK FOR THE CASEWORKER INVOLVED THAT IT ENCOURAGES THE CASEWORKER TO CORRECT THE CURRENT ERROR WITHOUT ESTABLISHING A CLAIM. CONGRESS SHOULD EXPLORE THE DESIRABILITY OF ALLOWING ESTIMATES OF THE OVERISSUANCE WITH CERTAIN PROVISOS. FOR INSTANCE, ESTIMATES COULD BE RESTRICTED TO OVERISSUANCES THAT SPANNED MORE THAN TWO MONTHS AND INVOLVED A SITUATION IN WHICH THE RECIPIENT WAS NOT ABLE TO IDENTIFY CHANGES IN CIRCUMSTANCES THAT WOULD SIGNIFICANTLY ALTER THE AMOUNT OF THE ESTIMATE.

MY FINAL COMMENT ON RECOVERING OVERISSUANCES INVOLVES THE INTERACTION OF THE BANKRUPTCY ACT WITH RECOVERY ACTIVITIES IN THE FOOD STAMP AND AFDC PROGRAMS. IT HAS COME TO MY ATTENTION THAT OUTSTANDING CLAIMS AGAINST HOUSEHOLDS WHO NO LONGER RECEIVE ASSISTANCE ARE BEING ABSOLVED THROUGH BANKRUPTCY PROCEEDINGS. I CAN CERTAINLY UNDERSTAND WHY THIS SHOULD BE ALLOWED SO LONG AS THE INDIVIDUAL REMAINS SELF-SUPPORTING. I DO NOT UNDERSTAND, HOWEVER, WHY THE STATE SHOULD NOT BE PERMITTED TO RECOVER THE OVERISSUANCE

FROM FUTURE ALLOTMENTS OR PAYMENTS DESPITE THE BANKRUPTCY PROCEEDINGS. I ALSO ACKNOWLEDGE THAT THIS SITUATION IS NOT CURRENTLY WIDESPREAD.

ILLINOIS ALSO SUPPORTS YOUR EFFORTS TO SIMPLIFY THE DEFINITION OF A FOOD STAMP HOUSEHOLD. I UNDERSTAND THE COMPETING INTERESTS OF ADMINISTRATIVE SIMPLIFICATION AND THE DIFFERING NEEDS OF THE HOUSEHOLDS INVOLVED. I APPRECIATE, FOR EXAMPLE, THE SEPARATE HOUSEHOLD STATUS GRANTED THE ELDERLY AND DISABLED WHO LIVE WITH OTHERS IN CERTAIN SITUATIONS. I ALSO RECOGNIZE THE NEED TO PROTECT THE ELDERLY AND DISABLED FROM THE CAP ON DEDUCTIONS RELATING TO SHELTER EXPENSES.

I AM NOT CONVINCED, HOWEVER, THAT THESE COMPETING INTERESTS CANNOT BE ACCOMMODATED IN AN EASIER FASHION. FOR EXAMPLE, I WOULD PREFER TO CONSIDER AS A SINGLE HOUSEHOLD ALL INDIVIDUALS WHO LIVE TOGETHER AND SHARE COMMON FACILITIES. I FURTHER BELIEVE THAT IT WOULD NOT DESTROY THE NATIONAL NATURE OF THE FOOD STAMP PROGRAM TO ALLOW STATES SOME LATITUDE IN THE DEFINITION OF A HOUSEHOLD.

TO PROTECT THE INTERESTS AND THE NEEDS OF THE ELDERLY AND DISABLED, WE CURRENTLY UNDERGO SOME RATHER COMPLICATED CALCULATIONS. I BELIEVE THAT IT WOULD BE SIMPLER AND JUST AS FAIR TO AWARD THOSE HOUSEHOLDS TO WHOM CONGRESS GRANTS SPECIAL CONSIDERATIONS A FLAT PERCENTAGE INCREASE IN THEIR FOOD STAMP ALLOTMENT. SUCH A SYSTEM WOULD PROVIDE ADDITIONAL BENEFITS TO ALL ELDERLY AND DISABLED RECIPIENTS AND WOULD BE FAR LESS ERROR PRONE THAN THE CURRENT SYSTEM.

ILLINOIS IMPLEMENTED A FOOD STAMP SIMPLIFIED APPLICATION DEMONSTRATION PROJECT ON OCTOBER 1, 1983, WHICH WAS AUTHORIZED BY PL 97-98. THIS PROJECT INCLUDES 150,000 FOOD STAMP HOUSEHOLDS IN WHICH ALL MEMBERS RECEIVE AFDC. UNDER THIS PROJECT, THE AFDC APPLICATION SUBSTITUTES FOR A FOOD STAMP APPLICATION AND THE INCOME AND RESOURCE REQUIREMENTS OF THE AFDC PROGRAM ARE USED TO DETERMINE ELIGIBILITY FOR FOOD STAMPS PROVIDED THE RECIPIENT'S GROSS INCOME IS NO GREATER THAN 130% OF THE FEDERAL POVERTY INCOME GUIDELINE AND THE RECIPIENT MEETS THE NON-FINANCIAL REQUIREMENTS OF THE FOOD STAMP PROGRAM. STANDARDIZED ALLOTMENTS THAT CONSIDER FAMILY SIZE, THE PRESENCE OR ABSENCE OF

EARNED INCOME, THE PRESENCE OR ABSENCE OF AN ELDERLY OR DISABLED MEMBER, AND A GEOGRAPHIC VARIATION IN THE AFDC PAYMENT LEVEL ARE PROVIDED TO ALL RECIPIENTS IN THE PROJECT. THE DEMONSTRATION IS SCHEDULED TO END ON DECEMBER 31, 1984.

THE CONVERSION TO STANDARDIZED ALLOTMENTS WENT SMOOTHLY. ILLINOIS ANTICIPATES A SHARP REDUCTION IN ADMINISTRATIVE EXPENSES AND A REDUCTION IN QUALITY CONTROL ERRORS. I BELIEVE THAT THE MORE SUCCESSFUL WE ARE IN COORDINATING THE RULES CONTROLLING THE FOOD STAMP, MEDICAID, AND AFDC PROGRAMS, THE MORE SUCCESSFUL WE WILL BE IN LOWERING ELIGIBILITY AND PAYMENT ERRORS. I ALSO BELIEVE THAT IS IS IMPERATIVE TO SIMPLIFY THE STATUTORY REQUIREMENTS FOR ALL THE INCOME TRANSFER PROGRAMS, PLACING SPECIAL EMPHASIS ON THE FOOD STAMP PROGRAM.

I WOULD LIKE TO THANK THE COMMITTEE FOR ALLOWING ME TO SHARE THIS TESTIMONY WITH YOU.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HUMAN SERVICES
WASHINGTON, D. C. 20002

OFFICE OF THE DIRECTOR

REPLY TO:

DEC 22 1983

The Honorable Robert Dole
United States Senate
Washington, D. C. 20515

Dear Senator Dole:

I am pleased to have this opportunity to comment for the record on monthly reporting and retrospective budgeting in the Food Stamp Program, and its relationship to other program management issues.

Monthly reporting has been advanced as a caseload management technique that will reduce fraud and error in the Food Stamp Program. No conclusive evidence illustrates that it will do this, however. After a series of carefully conducted, federally-funded studies, monthly reporting was not found to have clearly contributed to a significant reduction in errors. Since these research results have been discussed at some length in testimony before the Congress, I will not summarize this evidence again. Rather, I would like to discuss how monthly reporting compares to other caseload management techniques, for the objective remains sound management and error reduction, not the promotion of one administrative method over another.

There are basically four caseload management approaches that can be used to evaluate a client's continuing eligibility for welfare benefits. These four are:

1. A full review (or recertification) of all eligibility factors;

2. A review limited to a particular error-prone eligibility factor (for example, a review of employment, the age of the youngest child, or of the social security number).

3. A monthly report form which requires the client to respond to most questions that would normally be asked by a worker during a full review; and

4. A response to a client report of change. The response can include a full or partial review of eligibility factors, in addition to acting on the reported change.

While these four actions generally encompass the range of case management techniques now available to an agency, the first and fourth are the techniques usually employed in welfare administration. These constitute what I would term the traditional practice of welfare management for both AFDC and Food Stamps. Under this approach, an administering agency establishes clear and generally uniform periods of program eligibility, calls clients into the office when these periods expire and conducts a review or recertification of all eligibility factors. In addition to

this, the agency also responds whenever the client reports a change in circumstance. Although Food Stamp workers have had some flexibility in the setting of certification periods, the traditional practice has been a passive approach to management in the sense that uniform rules and/or client initiated action have triggered a full agency review of the case.

Several factors have led administrators away from this traditional approach and towards a more varied review strategy. Growth in use of error prone profiling has helped states to identify certain case characteristics which contribute to more than their fair share of errors. This has led to the recognition that households containing error-prone characteristics may require more frequent examination, and that a caseload review strategy can be built around the probability that a particular case may contain an error. An increase in the availability of third party information (such as unemployment insurance data or wage match tapes) now provides an agency with additional information that may impact directly on household eligibility. In addition, the combination of tight administrative budgets and looming fiscal sanctions has exerted tremendous pressure on states to adopt the most cost-effective caseload management methods. If seeing some households every month and others much less frequently will reduce errors and minimize administrative expenditures, such a course must be pursued.

Executing such a management policy requires flexibility and an ability to actively seek out clients whose eligibility should be reviewed based on error probability and/or third party information. While the advent of monthly reporting has added a new management technique to a state's arsenal, an over-reliance on monthly reporting can force out other more cost-effective techniques. A congressionally-mandated reliance on monthly reporting for a significant portion of the caseload is inconsistent with a flexible strategy. The issue in light of the recent legislation is whether monthly reporting or a flexible certification strategy is more likely to achieve significant cost-effective error reduction. There are several grounds for thinking that a flexible recertification/review strategy can be more effective than a broad reliance on monthly reporting.

- My agency has compared the effectiveness of monthly reporting to other case actions in the AFDC program. This analysis indicates that monthly reporting is cost-effective for certain categories of those households (see Enclosure A). The two most cost-efective categories (presence of two adults in the grant and children 16 years old or older) are directly related to specific elements of AFDC (IV-A) eligibility. The other highly cost-effective categories (UIB Match, WIN termination notification and wage match cases) can be carried out through a timely recertification strategy. A review triggered by a wage match is more cost-effective than monthly reporting triggered by a wage match or known earnings. Moreover, the effectiveness of the wage match review can be doubled if the review (or recertification) is limited to the one error-prone factor. The cost per review contained in Enclosure A assumes that all factors of eligibility are investigated. Monthly reporting costs cannot costs cannot be similarly reduced. The choice here is significant because income errors account for such a large portion of all errors.

  The key point here is that the highly error-prone category, households with potential unreported income, must be initially triggered by a wage match that establishes the group to be reviewed or placed on monthly reporting. At issue is the subsequent case review method, recertification or monthly reporting. The evidence shows that the combination of wage matching and recertification will produce higher issuance reductions. This conclusion is supported by Mathematica Policy Research on the Colorado Monthly Reporting Experiment which reached the same results.

- Data from the Colorado Monthly Reporting Experiment found that when two-parent AFDC households were recertified at three-month intervals, costs were 10% lower under the conventional AFDC program than under monthly reporting. The two-parent AFDC families (who were receiving benefits under the unemployed parent component of Colorado's AFDC program) is the category of AFDC households most similar to the food stamp non-elderly, non-AFDC related food stamp caseload. These regular, frequent redeterminations were shown to be a more effective method of caseload management than monthly reporting.

- We have also analyzed the District's unreported income errors from the most recent AFDC period. For the sample period, April through September 1983, we have been able to review in detail 21 out of a total of 25 cases that were unreported income errors. Thirteen of these cases were on monthly reporting and filed reports affecting the month of review. In no instance was the income reported on the monthly report. This finding supports our contention that a mail exchange of information (i.e., a monthly report) is less effective than a recertification, particularly that triggered by a wage match, for eliciting accurate information on a household's circumstances. There are good grounds for thinking the face-to-face interview is more effective because it gives staff greater latitude to ask probing questions. By contrast, ten[1] of the 21 cases had wages which were available from a wage match in sufficient time to have averted the error. These ten cases accounted for almost 50% of all our unreported income dollar errors. Thus, conducting recertifications based on wage match information is far more effective at reducing unreported income errors, and can potentially cut this error in half.

- A recertification strategy is also best for addressing Unemployment Insurance Benefit (UIB) errors. Since August 1983, the Income Maintenance Administration has had on-line access to the D. C. Department of Employment Services wage reporting and UIB file. This file is checked at every AFDC and Food Stamp application and recertification. This strategy has reduced the AFDC UIB error rate from 1.84% to .22% over the two most recent periods. Monthly reporting in addition to this terminal access is a needless duplication of effort.

Thus, while monthly reporting appears useful with respect to certain categories of AFDC households, targeted recertifications appear more effective for Food Stamp households. This is particularly the case because AFDC has eligibility rules that are not present in Food Stamps. Moreover, these rules permit a welfare agency to define operationally a category of households that can be placed on monthly reporting. The Food Stamp Program with its generally simpler eligibility rules does not permit the operational selection of such a group. Many states, for example, have shelter errors under Food Stamps; but these errors may not be associated with any group of households. This is the case in the District of Columbia. In this instance, the only way to make use of monthly reporting is to place all households on a monthly reporting system -- a clearly cost-ineffective response. My experience suggests that states, now more than ever, need the flexibility to tailor a caseload management strategy to their particular caseloads and error

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[1] All ten were among the 13 on monthly reporting.

problems. Advances in the technology of welfare administration are pushing states in this direction. We should not be hindered by a misguided over-reliance on monthly reporting.

However, the Food and Nutrition Service (FNS) of USDA in their final regulations, governing implementation of MR/RB have required that all Food Stamp participants with recent or current labor market involvement be placed on monthly reporting. This is in direct conflict with what we believe to be a broader more cost-effective error reduction strategy, and less effective than the use of variable recertification periods tied to wage match information. We are hopeful that the recently passed amendments which broadened the Food Stamp monthly reporting and retrospective budgeting waiver authority and loosened restrictions on recertification will allow the Secretary to favorably consider an approach such as outlined here. We remain concerned however that states are still required to complete a complicated waiver process for a set of administrative methods that will inevitably be only a portion of any state's overall caseload management strategy. Finally, as I stated in my testimony before the House Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, I continue to believe that the Congress should not be in the position of sanctioning states for their overall error rate and simultaneously requiring them to use particular case review techniques. If states are to be held financially liable for the quality of program operation they should be free to choose the case review techniques they believe best for them.

I very much appreciate this opportunity to present my views on what constitutes an efficient strategy in our battle against waste, fraud and abuse in the Food Stamp Program. The leadership and interest you and your subcommittee members have expressed in these matters is very helpful to those of us "in the field." I hope that the testimony I have provided will be of some assistance to you as you continue your efforts in support of the Food Stamp Program. Again, thank you for allowing me to participate in this effort.

Sincerely,

John M. Bayne

John M. Bayne
Deputy Administrator

Enclosure

ENCLOSURE A

EFFECTIVENESS OF AFDC CASE REVIEW ACTIONS

This table displays the average costs associated with selected types of AFDC case actions. The first column shows the type of action -- a monthly report or in-office review -- and the reason why the action was taken. The second column shows the average costs of the two types of actions. The third column is the average reduction in AFDC grants (the net of terminations, increases and decreases). The fourth column is a cost-effectiveness ranking. The breakeven point (1.0) is relative and reflects the overall ratio of errors in the caseload to administrative costs. As errors are eliminated, fewer actions would be 1.0 or greater. The purpose of this table is to show that all AFDC actions with applicability to the NPA Food Stamp caseload (R-UCB Monthly Match, R-Wage Match) can be incorporated into a recertification strategy.

TYPE OF CASE ACTION	COST PER ACTION	AVERAGE REDUCTION	EFFECTIVENESS RATIO
MR - Two adults in grant	$ 13.10	$ 88.87	6.8
MR - 16-year-old or over	13.10	26.81	2.05
R - UCB Monthly Match	109.50	214.00	1.95
R - WIN Termination Notification	109.50	195.00	1.78
R - Wage Match (3 Months)	109.50	178.00	1.63
MR - Known Earned Income Case	13.10	20.37	1.55
MR - Wage Match	13.10	19.37	1.48
MR - Worker Selection	13.10	11.42	.87
R - Client Initiated Action	109.50	60.00	.55
R - Application over 6 Months	109.50	48.00	.44
R - Child over 16 in Grant	109.50	40.00	.37

29-880 O—84——11

(The following news article demonstrates, in a very practical way, the usefulness of the monthly reporting system and wage matching in one recent instance in North Carolina. -- Jesse Helms, Chairman)

Duo Charged With Food Stamp Fraud

By Lou Neal
T-N News Writer

A 36-year-old Alexis woman and her 70-year-old mother have been charged in connection with a total of 21 cases of food stamp and Medicaid fraud, resulting in their receiving more than $25,000 in public assistance for which they were not entitled, according to Lincoln County court records.

Dorothy Jean Britt Abernathy and Nora Britt, both of Alexis, were arrested Wednesday afternoon and made initial appearances in district court Thursday. Preliminary hearings for the two women are set for Nov. 23. Bonds of $500 each were put on the mother and daughter.

Abernathy is charged with 19 counts of food stamp and Medicaid fraud and Britt is charged with aiding and abetting food stamp and Medicaid fraud.

The warrants state that Britt signed false statements verifying her daughter's false information about the number of persons in her household and her daughter's claim to a child that does not exist. She also supported another false statement that a son who is in a juvenile detention facility was living in the home, the warrants stated.

Abernathy also reported that her husband was not living in her home when the spouse was actually a member of the household, court records showed.

The fradulent collections of food stamp and Medicaid money span a period of four years.

One warrant states that Abernathy during a period starting with certification on Jan. 18, 1979 received $4,689.35 in Medicaid payments because she stated her husband was not living in the home, the

son incarcerated was in the home and claimed a child that did not exist.

The certification period listed May 10, 1979 records fraud of $866 in food stamps.

On Aug. 12, 1979 she was certified and received food stamps worth $866 for which she was not eligible, a warrant states.

Nora Britt is also charged with aiding and abetting food stamp fraud on food stamp collection of $1,888.

A certification of April 1, 1983 states Abernathy fraudently received food stamps in the amount of $162.

Jan. 11, 1983 certification alleges that she got $1,584 in food stamps, fraudulently.

A May 10, 1982 certification reveals $990 overpayment.

A Nov. 12, 1981 certification shows a $996 overpayment.

A June 13, 1980 certification resulted in $834 fraud.

A Dec. 30, 1980 cerfication resulted in $996 fraud.

A false report on Jan. 4, 1983 got a $2,291.53 Medicaid payment illegally.

On July 5, 1983, Abernathy was certified and received $106 by fraudulent means, according to court records.

Fraud investigator Barbara Strawser of the Lincoln County Department of Social Services said the fraud cases by Abernathy and Britt came to light about two months ago when the food stamp program was requiring monthly reporting by families of six or more and total overpayment to the two women is some $25,000 over the periods of certification during the past four years. (emphasis added)

Strawser also said that the federal government until this year did not require positive identification of applicants and made just checks on bills and reported income. No checks were made for identification of members of the households and income that might not be reported.

"This is the biggest one we have had. If there are more out there, I hope we find them. But, I hope they are not there," said Strawser.

Social Services director Betty Rhyne said part of the problem was that caseworkers had too large caseloads and the department had been understaffed. Another part of the problem she said was that food stamp recipients were not checked for identification as they are now. In the past, social security numbers were not required. Now the numbers must be presented or a driver's license.

"If we did not suspect something we did not check," Strawser said.

That has now changed. Persons charged with food stamp and Medicaid fraud will face court action.

TIMES NEWS
Lincolnton, N.C.
Nov. 11, 1983

(The following excerpts are taken from the final report from the Office of Inspector General issued on November 21, 1983, entitled "Effectiveness of the 75 Percent Provision for Fraud Control Activities in the Food Stamp Program"; see p. 23 for oral reference.)

United States Department of Agriculture | Office of Inspector General | Washington, D.C. 20250

Date: NOV 2 1 1983

Reply to Attn. of: 27646-1-SF

Subject: Effectiveness of the 75 Percent Provision for Fraud Control Activities in the Food Stamp Program

To: Robert E. Leard, Administrator
Food and Nutrition Service

This report summarizes the results of our audit of the enhanced funding provision for fraud control activities in the Food Stamp Program. The audit was directed primarily toward determining whether the Enhanced Funding Program fulfilled its objectives as a financial incentive to States to help them more actively pursue and prosecute fraud in the Food Stamp Program.

The results disclosed that in spite of an intensified effort and high priority assigned to the control of fraud in the Food Stamp Program by the Administration, there has not been a significant increase in establishing, prosecuting or collecting fraud claims. A number of factors have lessened the hoped-for results of the increased Federal funding. Specifically:

- States have routinely requested and been paid enhanced funding for activities that are noninvestigative in nature.
- Costs directly attributable to other Federal and State assistance programs and reimbursable at a lesser rate, have been charged at the higher Food Stamp Program rate.
- Administrative fraud hearings and court cases involving food stamp fraud do not achieve their desired objectives of recovering fraud overpayments, disqualifying clients from further participation in the Food Stamp Program, or deterring further program fraud because of overburdensome Federal and/or State laws and regulations.
- Collection efforts are often nonexistent or inadequate to recover fraud and nonfraud overpayment claims.

Your response to the draft report is attached as Exhibit B. At the exit conference and in your response, you indicated your agreement that changes were necessary to make the program effective. As pointed out in the report and discussed at the exit conference, statutory and regulatory changes are urgently needed. Your response indicates that the statute and regulations prevent changes from being made. We are concerned that your response does not identify necessary legislative or regulatory changes you intend to pursue to make the Enhanced Funding Program cost efficient and an effective incentive for prosecuting and deterring fraud in the Food Stamp Program. No definite actions were suggested to resolve the problems.

Unless the Food and Nutrition Service takes definite actions, like those we have recommended, the Department will continue to spend millions of

dollars and receive very little in return. In Fiscal Year 1982, program expenditures were $18,917,087 compared to $4,277,273 in fraud recoveries. For every Federal dollar spent on fraud control activities in those States receiving enhanced funding, they recovered only 22.6¢ in fraud collections. We foresee a worsening of this ratio unless immediate actions are taken.

P.L. 96-304, the Supplemental Appropriations and Rescission Act of 1980, and the Office of Management and Budget Circular A-50, require that all audit findings and recommendations be resolved within a maximum of 6 months from the date of report issuance. Specific criteria and procedures for audit resolution are contained in Departmental Regulation 1720-1.

Please furnish a reply within 60 days of receipt of this report showing the specific corrective actions taken or contemplated on our recommendations. Specify the time frames during which the actions are to begin and end.

The reply should be sent to:

James R. Ebbitt
Regional Inspector General for Audit
USDA, Office of Inspector General
555 Battery Street, Room 514
San Francisco, CA 94111

Please convey our appreciation to your National and Regional Office staffs for their assistance during this audit.

Donn E Adkisson

DONN E ADKISSON
Assistant Inspector General
for Audit

Attachment

SUMMARY OF AUDIT RESULTS

This report presents the results of our audit of the Enhanced Funding (EF) Program, administered by the U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS). The purpose of our audit was to determine how effectively the EF Program fulfilled its objectives as a financial incentive to States to help them more actively pursue and prosecute fraud in the Food Stamp Program (FSP). The FNS Quality Control System presently estimates that more than $1 billion a year in erroneous food stamp payments are made, either through administrative, inadvertent or intentional program violations. It should be noted that these erroneous payments are Quality Control projections and not actually identified cases. The EF Program is, however, designed to help agencies recover some of these funds.

Our audit has shown that in spite of an intensified effort and high priority assigned to the control of fraud in the FSP by the Administration, there has not been a significant increase in prosecuting fraud, or in establishing and collecting fraud claims.

A number of factors have had an impact on lessening the hoped-for results of the increased Federal funding. We found that: (1) States have routinely requested and been paid enhanced funding for activities that are non-investigative in nature; (2) costs directly attributable to other Federal and State assistance programs and reimbursable at a lesser rate, have been charged at the higher FSP rate; (3) administrative fraud hearings and court cases involving food stamp fraud do not achieve their desired objectives of recovering fraud overpayments, disqualifying clients from further participation in the FSP, or deterring further program fraud because of overburdensome Federal and/or State laws and regulations; and (4) collection efforts are often inadequate or nonexistent to recover fraud and nonfraud overpayment claims.

We found these problems in whole or in part in the 10 States in our audit--Washington, Arizona, Ohio, Oregon, Texas, New York, New Jersey, Florida, California and Illinois. These 10 States account for 61 percent of the total reimbursement to States under the EF Program for Fiscal Year 1982, yet these States collected only 36.5 percent of the total nationwide recoveries under the program for that year.

Here are some of the specifics on these problem areas.

Questioned Costs and Methods of Allocation. Normally, States may claim from the Federal Government 50 percent of the costs of investigating food stamp fraud cases that lead to determination of fraud and conviction. Under the EF Program, participating States may claim another 25 percent of these costs. We found that part of the ineffectiveness of the EF Program results from ineligible expenses claimed by the States, and from the inequitable manner in which States allocate investigative costs to the FSP when other welfare programs are involved. One ineligible activity commonly claimed was the cost of routine computer matches, even though these matches only offered leads to potential fraud cases and did not necessarily result in convictions. In six States we visited, State agencies claimed at least $387,557 in ineligible expenses for enhanced funding. Many of these expenses are still being claimed. We also estimate that FNS could have saved at least $4 million in three States if these costs had appropriately been charged to the program that benefited the most, which was not the FSP. Some States were including costs unrelated to FSP fraud in their cost allocation plans, and some States were arbitrarily splitting costs equally between USDA and the Department of Health and Human Services (HHS), which administers the Aid to Families with Dependent Children (AFDC) Program, even though the effort those States devoted to FSP fraud was less than what they devoted to fraud in HHS programs. New York State charged 100 percent of the costs of its welfare investigative unit to the FSP, although AFDC and Medicaid benefited from these investigations.

Ineffective Results of Administrative and Court Proceedings. Under FNS regulations, States may prove food stamp fraud (intentional program violations) through either a court prosecution or an administrative fraud (disqualification) hearing. States may claim enhanced funding for the cost of either of these proceedings, but neither proceeding has adequately achieved its objectives to deter fraud, disqualify clients found guilty of fraud, and to recover fraud overpayments. Backlogs of cases exist in both courts and hearing schedules, yet FNS regulations do not permit States to determine fraud in the absence of either a hearing or a prosecution. Additionally, the use of State and/or local prosecutors is limited because prosecutors, particularly in the major metropolitan areas, are either not interested in pursuing FSP fraud, do not feel FSP fraud is a prosecutable offense, or establish such a high dollar threshold before they will consider a case, that most FSP cases never reach the courts.

Some court proceedings, especially those involving pretrial dispositions, legally prohibit States from disqualifying a client from the FSP, unless the State also processes the case through an administrative hearing. Hearings, on the other hand, provide little enforcement authority. In only 1 of the 10 States that we visited did administrative hearings permit civil collection remedies.

Although courts may enforce recovery of food stamp fraud overpayments, they do not always do so. Both judges and probation officers are apt to be lenient or assume that payment would constitute a hardship, and frequently they do not require restitution.

Inadequate Collections and Monitoring of Fraud Cases. Under FNS regulations, State agencies are required to establish claims against any FSP participant who receives more food stamps than he/she is entitled to. States arrive at claims for fraud overpayments through either court prosecutions or administrative hearings, while claims for non-fraud overpayments may be made directly to the client as soon as the

overpayment is detected. We found that the establishment of claims, both fraud and nonfraud, were generally backlogged in the States reviewed. Also, most of these States relied primarily on voluntary repayment methods, so there was a low rate of collections. In some States the system that accounts for collections was either manual or did not interface with the issuance system. These States, as a result, were not able to properly monitor payment status and to effectively utilize recoupment. Recoveries were more successful in those States with an automated tax-intercept system, whereby food stamp overpayments were automatically deducted from a client's tax refund. However, recoveries remain negligible. Of total overpayments of approximately $506.4 million nationwide for the first half of Fiscal Year 1982, barely $7 million was recovered.

Complicating the recovery process is the mobility of clients found guilty of food stamp fraud, and the State's inability to successfully monitor their movements. A client disqualified from the FSP in one county for fraudulently receiving food stamps may move to an adjoining county and enroll in that county's FSP. At some locations, controls are nonexistent to prevent this from happening at different offices within the same county.

FNS officials have been concerned that States should do more to detect, prevent and prosecute fraud in the FSP, and have been conducting a series of Regional Fraud Awareness seminars. Included in the seminars are discussions about what funding is available through the EF Program and what the States need to do to participate. FNS representatives are especially counselling State Attorneys on the availability of program funds for broader and more aggressive use of the courts to try food stamp fraud cases. FNS's strategy is to publicize the program and its goals so that States may more actively pursue food stamp fraud in areas where in past years it has been financially disadvantageous to the States to do so.

We encourage FNS in its efforts to increase the effectiveness of the EF Program. We believe this report will draw attention to those program areas that are either not cost-effective, or do not produce results commensurate with the objectives of the program. Basic regulatory changes will streamline the program, resulting in a less burdensome system for the States to operate, a greater financial incentive for States to pursue food stamp fraud, and ultimately better detection and prosecution of fraud, and better collection of claims in the FSP. Fraud hearings and prosecutions must be streamlined or strengthened to be effective; program costs must be correctly allocated between other Federal and/or State programs; States must act quickly on suspected overpayment cases if recovery is to be possible at all; and States must act aggressively to pursue and collect overpayments and must consider innovative collection methods if they are to be successful.

If effectively carried out, these efforts should have a strong prevention effect on fraud in the FSP.

RECOMMENDATIONS FOR THE ADMINISTRATOR, FOOD AND NUTRITION SERVICE

1. Disqualification (Fraud) Hearings

In order to make the intentional FSP violation (fraud) determination process more efficient, more cost beneficial, and less burdensome for States to operate, a number of actions are necessary. Legislative or regulatory change will be necessary to implement some of these recommendations. FNS should:

a. Once a potential intentional program violation is detected, notify the recipient of his right to an Administrative Fraud Hearing. If the recipient waives his right to a hearing or fails to respond, declare that an intentional program violation has occurred and apply the required penalties for intentional program violations. (See Details - 1)

b. Require an Administrative Fraud (Disqualification) Hearing only for cases where disqualification is desirable (when the recipient is still participating, or is likely to reapply for participation in the FSP). (See Details - 1)

c. Encourage States to use court prosecutions only for major, highly visible cases. (See Details - 1)

d. Allow States to retain 50 percent of all collections made under the method described in Recommendation 1a above. (See Details - 1)

2. Prosecutions

Taking into consideration the recommended change in the method of determining intentional FSP violations, as stated above, the following actions should be taken:

a. Require States to assess the need for, and the feasibility of, prosecutions within their jurisdictions. They should consider such factors as cost-effectiveness, the deterrent effect, alternative methods of establishing claims and the availability and interest of prosecutors. (See Details - 2)

b. Permit States to determine the need to prosecute food stamp fraud or refer more cases for prosecution; if States determine such a need, they should endeavor to establish cooperative agreements with the prosecutors. (See Details - 2)

c. Reassess the need to investigate all intentional FSP violation cases. We propose that only those cases that will likely result in prosecution be thoroughly investigated; for those cases that do not warrant prosecution, only sufficient investigative work necessary for a requested Administrative Fraud Hearing should be completed. (See Details - 2)

d. Require that States communicate to prosecutors the necessity of providing reasonable food stamp restitution in the court orders and pretrial arrangements. If inadequate restitution continues to be a problem, States should consider this during their assessment of the need for prosecutions. (See Details - 2)

e. Require States to establish a system to effectively monitor payments made through probation officers and the courts. (See Details - 2)

f. Provide that consent agreements be used only to the extent that they are needed to impose FSP disqualification on all prosecuted cases. Consider the possibility of requiring the signing of these agreements as a condition of the pretrial dispositions. (See Details - 2)

g. Allow States to retain 50 percent of the collections made through pretrial dispositions. (See Details - 2)

h. Require the FNS Regional Office to establish a claim for the $30,697 in ineligible retentions made by Sacramento and San Diego Counties through December 1982. Since these counties were still retaining these collections at the completion of our fieldwork, FNS should also establish a claim for all retentions for the period December 1982 to the present or until the regulations are changed. (See Details - 2)

3. Allocation of Costs

a. Provide instructions to State agencies in the proper allocation of investigative costs between USDA and HHS for mixed AFDC/food stamp cases. We suggest the following as possible allocation methods:

1) An allocation based on the time investigators spend on food

stamp-only cases and AFDC-only cases. The results of these timestudies (ratio of time spent on each type of case) would then be applied to the mixed AFDC/food stamp cases.

2) An allocation based on results--food stamp claims and/or collections.

3) An allocation based on case counts--AFDC and food stamp cases in which there was a completed investigation. (See Details - 3)

b. For the States identified in this report which were claiming allocated costs totally unrelated to FSP investigations, FNS should ask these States to repay the improperly allocated amounts. Since these improper allocation methods were still being used at the completion of our audit, additional computations may be necessary to arrive at the total amounts to be repaid. (See Details - 3)

4. Questioned Costs

a. Closely monitor and work with the States to determine which costs are eligible for enhanced funding. Establish claims for the $387,557 in overclaims identified in this report, keeping in mind that most of the ineligible costs were still being claimed at the conclusion of our fieldwork. (See Details - 4)

b. Require that fraud prevention costs be eligible for enhanced funding only if the unit conducts full investigations on AFDC/food stamp and food stamp-only cases which result in an intentional FSP violation determination and possible disqualification. (See Details - 4)

5. Identification of Individuals Disqualified or With Outstanding Claims

Encourage and assist States in developing automated systems which provide instant documentation of all significant activities related to a case on a statewide basis. (See Details - 5)

6. Collections

a. Recover $10,549 from San Diego and Sacramento (California) Counties for retention of ineligible nonfraud collections. (See Details - 6)

b. Make sure that States establish claims for all identified food stamp overpayments and encourage States to utilize all possible collection alternatives. (See Details - 6)

c. Encourage the States to place a higher priority on pursuing food stamp overpayments by emphasizing the financial incentives. (See Details - 6)

d. Make sure that States develop and implement procedural and administrative controls to properly track claims and collections. (See Details - 6)

e. Direct States to establish and pursue as nonfraud claims all potentially intentional program violations unless it can be shown on a case-by-case basis that such action might jeopardize the case in court. (See Details - 6)

(The following excerpts are taken from the final report from the Office of Inspector General issued on January 27, 1984, entitled "Nationwide Audit of the Implementation of Wage Matching, Food and Nutrition Service--Food Stamp Program", see p. 24 for oral reference.)

United States Department of Agriculture | Office of Inspector General | Washington, D.C. 20250

Date: JAN 27 1984

Reply to Attn. of: 27647-1-Hy

Subject: Nationwide Audit of the Implementation of Wage Matching, Food and Nutrition Service - Food Stamp Program

To: Robert E. Leard
Administrator
Food and Nutrition Service

Attached is the subject audit report for your review. While all items in the report are worthy of your interest, we believe the following will require your special attention:

- Many administering State Agencies (SA) have initiated wage matching to some degree; however, none of the 15 SAs we reviewed were in full compliance with the wage match regulations. This noncompliance was because a wage match was not completed which met regulatory requirements and/or proper followup and corrective action were not taken on wage match results.

- Although FNS has a stated policy in reference to penalizing States for noncompliance with regulatory laws, there is no uniform method used in computing penalties for noncompliance. As a result, the assessment amounts are not being computed on a standard basis to avoid regional inequities.

- FNS Headquarters has not developed minimum requirements for SAs' wage matching printouts or microfich formats that contain wage match results. This lack of minimum requirements has resulted in inefficient and time-consuming methods being used by various SAs.

- Ten of the fifteen SAs and/or County Offices had a backlog of unprocessed claims. As a result, many State and local agencies will be unable to process additional claims for overissuances identified by wage matching.

These items illustrate weaknesses in the management of both the implementation of wage matching and the monitoring of SAs' compliance. We believe corrective action at the National level is required.

FNS's official response to the findings and recommendations in the draft report is attached as Exhibit G to the final report. FNS has some basic disagreements with our conclusions and recommendations, and our final report has been revised to provide FNS's perspective. While we recognize some of the constraints that FNS had to contend with, such as competing workload priorities and delays in getting Social Security Administration agreements signed, we are not questioning the sincerity of FNS's overall effort; however, the intent and mandate of Congress has not been achieved. The FNS response states that legislation has been introduced to allow States to use alternative wage sources for matching, where appropriate, and that type of positive action we would consider adequate for resolution of that specific recommendation.

However, we consider all other findings and recommendations unresolved until such time as we are advised of adequate corrective actions.

We request a reply as to the corrective actions taken or planned on the findings and recommendations in the report, including timeframes for completion, be furnished us within 60 days. Please note that PL 96-304, The Supplemental Appropriations and Rescission Act of 1980, and OMB Circular A-50 require that all audit findings and recommendations be resolved within a maximum of 6 months from the date of report issuance. Specific criteria and procedures for audit resolution and closure are set forth in Departmental Regulation 1720-1.

The courtesies and cooperation extended the auditors are appreciated.

for DONN E ADKISSON
Assistant Inspector General
for Audit

Attachment

I - SUMMARY

One of the major abuses of the Food Stamp Program (FSP) is the participation of persons who failed to properly report their incomes. Based on records of the Food and Nutrition Service (FNS), which administers the FSP for the United States Department of Agriculture, we estimate that between $300 to $400 million in Food Stamps (FS) are issued annually to persons who have not properly and accurately reported their incomes. In an effort to strengthen program administration, the Congress enacted legislation to require all States to begin wage matching in the FSP. The Agriculture and Food Act of 1981 mandated that wage matching be implemented by each State not later than January 1, 1983. A wage match involves the matching of Social Security Numbers (SSN) and wages in FSP files to the SSNs and wages maintained on the files of various agencies which collect wage data. The purpose of the wage match is to detect situations where recipients have underreported or failed to report their incomes. The wage match legislation also requires State Agencies (SA) to have procedures in place to followup on the hits (actual matching of names and SSNs) identified by the wage match.

The purpose of this audit was to determine if the administering SAs were in compliance with the enacted legislation and determine the adequacy of FNS involvement. We notified FNS on February 22, 1983, that, based on our preliminary survey results, many States appeared not to be in compliance. This report concludes, that although many States have initiated wage matching to some degree, none of the States we reviewed were in full compliance. The States need increased assistance and guidance from FNS to realize a meaningful reduction of the $300 to $400 million in annual FSP losses from inaccurate income reporting. Our findings are as follows:

-- All 15 of the SAs we reviewed were not in full compliance with the wage match regulations. This noncompliance was caused by one or both of the following:

   a. a wage match was not completed which met regulatory requirements, and/or

   b. proper followup and corrective action was not taken on wage match results.

   We attributed these situations to FNS Headquarters and FNS Regional Offices (FNSRO) not effectively monitoring the SAs' implementation of wage matching. Major deficiencies in various SA

operations and procedures subsequently went unnoted. Also, FNS cited that the Social Security Administration (SSA) was slow to respond to FNS's efforts to arrange matches for wage request States. All of these factors have caused the results thus far from wage matching to be considerably less effective than anticipated.

-- FNS had not developed a uniform policy in reference to the method used in computing penalties for noncompliance with wage matching. As of the end of our fieldwork in July 1983, three FNS regions had drafted formal warning letters (some already issued by the National Office) to SAs because of noncompliance, but the methods of computing penalties used by each region were different because no standard policy existed. As a result, the assessment amounts are not being computed on a standard basis to avoid regional inequities. Also, many States not in compliance have not received warning letters, partly because FNS was not aware of some States' noncompliance.

-- SSA files were less useful than other available wage sources because the information is more dated. Wage information on SSA files is 1 or 2 years old, while some alternative wage sources have more current and useful information. FNS recognized this problem and, during our review, informed us that they were drafting proposed legislation which would allow the SAs to use alternative wage sources, such as State income tax files, in lieu of SSA files. The Office of Inspector General (OIG) supports FNS's efforts to seek this change in the wage matching regulations.

-- FNS had not developed minimum requirements for wage matching printouts or microfiches that contain wage match results. We found that many of these documents contained only Unemployment Compensation (UC) earnings data, but no case file information such as reported earnings. As a result, an excessive and sometimes unmanageable amount of case reviews will have to be performed at the county and local agency levels. Also, FNS had not established timeframes for the SAs to complete their review of wage matches or priorities for the SAs to follow for first correcting the largest FS overissuances. Consequently, it is uncertain when SAs will review all or a major portion of the wage match files, take corrective action, and achieve benefits from the wage match process.

-- In an effort to evaluate the effectiveness of the States' matching efforts, the FNS Mid-Atlantic Regional Office is reviewing wage match activities as a part of their Management Evaluations (ME). We believe this is a positive approach that could be strengthened and implemented nationwide. This will provide the FNSROs some assurance that the SAs have developed adequate followup procedures and corrective action requirements. However, none of the other six FNSROs had conducted this type of review, and, therefore, were unaware of many of the wage match deficiencies cited in this report.

-- Ten of the fifteen SAs and/or County Offices (CO) had a backlog of unprocessed claims. As a result, many State and local agencies will be unable to process additional claims for overissuances identified from wage matching. Also, these agencies may not be taking full advantage of the new reduction in FS allotment provisions, which, if applied, could significantly increase the amount of FS funds to be recovered from recipients who were overissued. These provisions allow SAs to reduce the current FS allotments, thereby recovering past overissuances. Therefore, the FNSRO will have to closely monitor SAs' efforts and abilities to follow up on wage match hits and develop corrective action plans for those SAs that are currently having difficulty processing claims.

We also attempted to gather cost benefit information from SAs' records,

but because wage matching was only effective as of January 1, 1983, this information was generally not available. However, one SA had compiled cost/benefit data from its wage matching process. This data showed that a significant cost savings could be realized in the FSP from wage matching. Specifically, Massachusetts, based on all matches done to date since 1980, had prosecuted about 6,740 cases and obtained judgments against households for more than $33,600,000, of which more than $4,836,000 was FS monies. Additional savings of $25,023,000 in FS and Public Assistance (PA) benefits were projected. The projected savings were based on an assumption that each case would remain closed or benefits reduced, as a result of wage matching, for the rest of the year. These savings equate to $6.25 in judgments for every $1 expended.

Conversely, one SA was not currently wage matching Non-Public Assistance (NPA) and PA FS cases. Based on our analysis of Quality Control (QC) data, this SA may continue to issue about $1.4 million in excessive FS coupons per month to households with unreported earned income. This potential overissuance could be reduced by the SA complying with the wage match regulations.

OIG believes wage matching to be an effective and efficient means of detecting and preventing abuse in the FSP. Data initially available, while limited, supports this position. The above noted deficiencies illustrate that FNS must provide comprehensive guidance to the SAs to ensure benefits are realized from wage matching. Also, FNS must take aggressive, consistent action against the SAs which do not operate within the wage match regulations.

We provided FNS the opportunity to furnish an official written response to our draft report. In FNS's written response, they believed that there had been a misunderstanding as to what we perceived to be FNS's policy relative to their definition of implementation versus full compliance with the wage match regulations. FNS believed that if SAs had executed a data exchange agreement and performed a full caseload wage match, the SAs had adequately implemented the regulations. We believe it is clearly stated in the regulations that part of implementation is for the SAs to also have adequate written followup procedures in place in order to act on wage match hits, and we found no such procedures in place in the majority of the SAs we reviewed. Basic implementation, as defined by FNS, is not a useful exercise unless there is proper followup on wage match hits. Also, as of August 1983, none of the 15 SAs we reviewed had conducted a full caseload match.

FNS stated that the SSA was responsible for delaying the implementation of wage matching in the wage request States because of their slowness in determining how SAs should reimburse the SSA for doing the matches. We agree that FNS experienced significant difficulties in reaching an agreement with the SSA. However, we can only emphasize that the effect is the same and by not reaching an agreement timely, wage request SAs did not implement wage matching and comply with the laws.

FNS also believed that their current policy on how and when to assess penalties against SAs for failure to operate the program in conformance with applicable regulations was sufficient. However, as cited by examples in this report, the policy may not treat the SAs equitably. FNS policy in this area is not specific enough for all FNSROs to be uniform in computing penalties.

FNS's complete written response is attached as Exhibit G to this report as well as included in the respective parts of the Details section.

II - RECOMMENDATIONS

A. TO THE FNS HEADQUARTERS

1. Establish minimum requirements for wage matching printouts or microfiches. These minimum requirements should include both UC or SSA wage information and information from the case file, such as reported income, household size, and date of reported income. (See Detail 1.)

2. Establish minimum standards, including timeframes, for SAs to meet when processing wage match hits. (See Detail 1.)

3. Develop a uniform policy for all regions to use in computing penalties for noncompliance with wage matching. The uniform policy should be consistently applied to all States not complying with the wage match regulations. The amount of the penalties assessed should be in amounts sufficient to warn States that this regulation must be complied with. (See Detail 1.)

4. Take proper action, including financial penalties, against those SAs failing to comply with the wage match regulations. (See Detail 1.)

5. Continue to request that legislation be introduced which would allow wage request States, with efficient alternative wage sources, to use those sources if they are better than the SSA data files. After legislation is passed, require the SAs to use the employment service or alternative wage data sources when those sources are deemed more effective and efficient than the SSA data. (See Detail 3.)

6. Immediately require the FNSROs to prepare written wage matching review guidelines for their ME reviewers. (See Detail 1.)

B. REQUIRE THE FNSRO ADMINISTRATORS TO:

7. Require ME reviewers to conduct detailed onsite analyses of SAs' wage matching activities. Results of those analyses should be used to prepare corrective action plans for SAs to implement and thereby comply with the intent of the wage matching regulations. (See Detail 1.)

8. Immediately initiate penalties against all SAs known to be in violation of the wage matching regulations. The FNSROs should initiate the same penalties against any other SAs which, based upon ME review results, are found not to be in full compliance with the wage match regulations. (See Detail 1.)

9. Require all SAs to establish written followup procedures for wage match hits for all levels within the States. Also, require SAs to monitor their local offices' compliance with followup procedures through ME reviews. (See Detail 2.)

10. Identify those SAs with backlogs of unprocessed claims and require the SAs to prepare a corrective action plan which will result in the SAs timely processing wage match hits. (See Detail 4.)

(The General Accounting Office released a report on February 4, 1983, entitled "Need for Greater Efforts to Recover Costs of Food Stamps Obtained Through Errors or Fraud" (GAO/RCED-83-40). The digest from that report is printed below.)

Comptroller General's Report to the Congress

NEED FOR GREATER EFFORTS TO RECOVER COSTS OF FOOD STAMPS OBTAINED THROUGH ERRORS OR FRAUD

D I G E S T

Administrative and legislative changes in the Food Stamp Program are needed to spur the States to (1) identify specific households receiving erroneous issuances of food stamp benefits and correct the benefit levels, (2) collect overissued benefits, and (3) improve the pursuit of potential fraud.

The program, with Federal oversight by the Department of Agriculture's Food and Nutrition Service, provides benefits to about 22 million people through State agencies. In fiscal year 1982 the program cost about $11.1 billion.

During fiscal years 1980 and 1981, the Federal Government lost about $2 billion through State overissuances of benefits to households that (1) were not eligible or (2) received more than they should have. Concurrently, eligible households received about $500 million less than they should have. The net drain on program resources could have provided food stamp benefits to about 1.7 million needy people for 2 years. The erroneous issuances resulted from administrative and recipient errors and fraud. Only about 1 cent of each overissued dollar was recovered.

In 1977 GAO reported that States could do more to identify and recover overissuances and adjudicate cases involving alleged fraud. (See p. 1.) This review was made to see if improvements had occurred since then.

MORE SPECIFIC OVERISSUANCE CASES CAN BE IDENTIFIED

Using semiannual quality control results, the

Service can project the total amount of over- and underissued benefits, but it has no reliable data on how many of these errors States identify with specific households.

States identify some errors as a by-product of routine procedures such as recertifications for continued benefits and quality control reviews of statistically selected samples of food stamp cases. Also, some States voluntarily use other methods involving computer matching and error-prone profiles. Data in the six States GAO visited (California, Louisiana, New York, Pennsylvania, Texas, and Washington) indicated that compared with total estimated overissuances, relatively few specific cases have been identified. (See pp. 7 to 15.)

Computer matching to identify and ultimately recover specific overissuances holds considerable promise. Wage matching has been successfully used in the Food Stamp and other programs and is now required by statute in the Food Stamp Program. GAO's separate review of eight States showed that although almost 30 percent of food stamp overissuances had been due to errors in client-reported wages, large losses were also caused by such factors as incorrectly reported household size and persons receiving benefits as a member of two or more households. GAO identified computerized data bases that can be used to identify these types of errors.

Officials in the States GAO visited said they had not tried to identify more overissuance cases because there have been no requirements and few financial incentives. Legislation implemented in recent years provides financial incentives. Additional legislation enacted in 1981 and 1982 requires States to perform wage matching and develop procedures to detect and prevent multiple participation. (See pp. 15 to 19.)

The Service has emphasized preventing errors rather than identifying specific over- and underissuance cases. Error prevention is a high priority, and GAO has recommended ways to improve prevention in previous reports. However, identifying erroneous cases must not be ignored. Although it is not possible or practical to identify all erroneous issuance cases, much more can be done than has been done in the past. Large program savings can result from stopping

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overpayments and triggering claims establishment and collection. Conversely, underpayments can be restored. (See pp. 19 and 20.)

MORE OVERISSUANCES CAN BE RECOVERED

Although required to establish claims against households identified as receiving overissuances, States had not always done so. Nationally, claims established equaled about 6 percent of total projected overissuances. Of the $108 million in claims established in fiscal years 1980 and 1981, States collected only about 18 percent.

State officials told GAO that collection was difficult, and they saw limited benefit in establishing claims. They said that the wording of the Service's letter demanding repayment and the Service's regulations on when collection action is to be suspended inhibited collection and that few financial incentives to collect existed. The Service was revising these regulations. (See pp. 25 to 31.)

Recent legislation should encourage and enable States to collect more. It provides more financial incentives and, in the case of recipient-caused errors in nonfraud cases, requires offsets against benefits to households still in the program. The legislation does not authorize offsets for State-caused overissuances even though such authority exists in the Aid to Families with Dependent Children Program. The Service has been slow to implement the existing offset provisions. (See pp. 31 and 32.)

Allowing recovery of State-caused overissuances by offsets would facilitate collection. In fiscal year 1981 it would have increased the amount subject to this more efficient process to about $500 million. (See p. 34.)

MORE POTENTIAL FRAUD COULD BE PURSUED

No one knows how much Federal money has been lost through recipient fraud, but program officials agreed that fraud is a serious and pervasive problem warranting greater concern and management attention.

About 16,000 cases of alleged recipient fraud were reported as being adjudicated during fiscal year 1981. During fiscal years 1980 and 1981,

fraud claims comprised about $16 million of the total established claims of $108 million. However, available data suggests that fraud is much more prevalent. (See pp. 46 to 48.)

States did not investigate or adjudicate many identified cases of potential fraud because of the problems they perceived in pursuing them. For example, in New York City few investigations were made of almost 52,000 cases involving inaccurate reporting of income or individuals' receipt of multiple benefits, and none were referred for adjudication. In California 14,000 potential fraud cases were investigated but only 242 were referred for adjudication. (See pp. 48 to 51.)

The States GAO visited cited food stamp fraud as a low priority for court adjudication. Their reasons included the more serious nature of other alleged crimes, the relatively small amounts in individual cases, and the difficulty of proving food stamp fraud. Since GAO's 1977 report, the Congress has authorized States to use an administrative fraud hearing process as an alternative to the court system.

Some States viewed the administrative process as an effective alternative when it was not feasible to use the courts. State officials said that factors such as burden-of-proof requirements and cost had limited their adjudication efforts, but neither they nor local officials provided an assessment of the impact of these perceived obstacles.

The Service is aware of the States' concerns about cost and evidence requirements and their reluctance to adjudicate alleged fraud administratively. But it had not acted in a concerted and comprehensive way to solve or lessen perceived barriers to State fraud pursuit. However, Service officials said that they had recently increased their interaction with State officials to promote pursuit of food stamp fraud. (See pp. 51 to 57.)

RECOMMENDATIONS TO THE CONGRESS

GAO recommends that food stamp legislation be amended to (1) expand the use of offsets to cases involving agency-caused errors and (2) require States to take steps to recover overissuances from households no longer in the program. Also, the legislative and appropriations committees

should direct the Secretary of Agriculture to inform them periodically on the status of efforts to identify and collect overissuances. (See p. 42.)

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

GAO recommends several actions the Secretary should take to improve Federal and State efforts to identify erroneous benefit issuance cases and collect overissuances. These include monitoring and assessing State actions; providing needed guidance and assistance to States; obtaining and disseminating pertinent information; exploring and refining identification, collection, and fraud adjudication techniques; and requiring States to adopt the most effective methods for identifying and collecting overissuances and pursuing potential recipient fraud. (See pp. 21, 22, 42, 43, 58, and 59.)

Service and State implementation of GAO's recommendations will present opportunities for large cost savings. Actual savings will depend on how well States identify and pursue overissuances and correct erroneous cases.

AGENCY COMMENTS AND GAO'S EVALUATION

In response to GAO's recommendations, the Department discussed several existing and planned Service initiatives that should help improve overissuance recovery and fraud pursuit. (See app. I.)

However, the Department considered the regulations for identifying overissuance cases adequate and did not believe a specific requirement was needed. Although the Service believes its regulations implicitly require States to identify overissuances, program results clearly show that relatively few had been identified. Further, it was not clear that States perceived overt efforts to identify specific cases as a basic program responsibility. GAO believes the Service should modify its regulations to expressly require more attention to identifying households that received overissuances. (See pp. 22 and 23.)

The Department expressed reservations about amending legislation to require States to act to recover overissuances from the income and

assets of households no longer receiving benefits. The Department preferred to allow States to select the most appropriate collection method but did not provide any specific relevant reasons why, in these instances, States should not be specifically required to take collection action.

GAO acknowledges that it is more difficult to collect from households no longer receiving benefits because external collection processes, rather than an internal offset process, must be used. However, since almost half of the total overissuances have been to households no longer eligible for benefits, it is very important that States take concerted collection action if it is cost beneficial to do so. (See pp. 43 and 44.)

(The following are excerpts from an Interagency Audit Project of the President's Council on Integrity and Efficiency, entitled "Federal Employees Receiving Government Assistance", September 16, 1983.)

HIGHLIGHTS

On March 26, 1981, the President established by Executive Order the President's Council on Integrity and Efficiency (PCIE) within the Office of Management and Budget. One major objective of the Council was to reduce fraud, waste and abuse in Federal operations and programs. To accomplish this task, the Council initiated a series of governmentwide projects to concentrate Inspector General resources in areas susceptible to waste and abuse. One of these projects was to identify Federal military and civilian active and retired employees who were abusing Federal benefit programs or had delinquent debts to the Federal government.

Through computer matching techniques, nine Federal benefit programs and six receivable systems were reviewed for possible abuse. During Fiscal Year 1981, expenditures under these benefit programs were about $35 billion and accounts receivable totaled almost $22 billion. Over 10 million Federal personnel records were reviewed.

Status reports submitted by participants at July 31, 1983, showed that agency computer-matching projects and followup verification of hits have identified 1,881 individuals who have improperly received $14 million under Federal benefit programs. Another 159,580 individuals have delinquent indebtedness to the Federal government totaling $189.7 million. Participants continue to verify raw hits and pursue collection and cost-avoidance actions.

We recommend that the PCIE ensure that participating agencies continue to actively pursue the verification of raw hits and the ultimate collection of improper benefits and delinquent indebtedness. The Veterans Administration (VA) could be used as a

model in the collection of improper benefit payments. The procedures used by the VA resulted in collection from or establishment of accounts receivable for all identified abusers of its benefit programs. The Department of Education could be used as a model for pursuing delinquent debtors. The Department of Education has already formally notified the heads of executive agencies of the procedures to follow on collecting delinquent loans, including the potential garnishment of wages. Further, the PCIE should encourage participating agencies to expand the use of computer matching techniques in these programs to non-Federal income data bases. Some participating agencies have already obtained state wage files for verifying income-dependent programs. These data could also be used to confirm the addresses, employment and ability to pay for delinquent debtors.

In an effort to prevent abuse in the future, participants also identified systemic problems which may have caused these abuses. Their comments revealed that most problems were common to more than one program and could be grouped into three categories: Eligibility Processes, Program Administration, and Enforcement Activities. Recommendations to either correct the deficiencies or pursue problem areas warranting further study were developed. These recommendations include:

- governmentwide standardization of data elements used in eligibility determination processes;
- strengthened verification of applicant-provided eligibility information;
- requirement for endorsers or cosigners for loans;
- a governmentwide accounts receivable system;

- o elimination of overlap/duplication in Federal benefit programs; and

- o aggressive implementation of the Debt Collection Act of 1982.

* * *

F. Department of Agriculture Project Results

The Agriculture OIG reviewed one loan program and one benefit program. The Farmers Home Administration (FmHA) loan program was reviewed to identify Federal personnel who were ineligible for, or were delinquent in repayment of, loans obtained through the program. The Food Stamp Program (FSP) was reviewed to identify Federal personnel who understated their income in order to obtain food stamps.

* * *

2. Review of the Food Stamp Program

The FSP provides financial assistance to households in need of nutrition assistance. Households receive a monthly coupon allotment which varies according to household size. These coupons may be used at participating retail stores to buy food for human consumption. About 22 million persons participated in the program during Fiscal Year 1981 and expenditures totaled about $10.6 billion.

The program is administered for the Department of Agriculture by state agencies; therefore, matches of Federal personnel records with FSP roles were conducted on a state-by-state basis.

Results

Matches of selected Federal personnel files to the FSP roles in California, the District of Columbia, Georgia and Illinois identified 2,709 cases where Federal employees received food stamps. A review of 1,472 of these cases identified 436 cases where Federal employees were overpaid nearly $400,000. Of these 436 cases, 300 are suspected of having been overpaid about $800,000 in other welfare benefits. These cases have been reported to the appropriate state and Federal agencies for corrective action.

Verification Process. Raw hits are researched by program personnel. When overpayments are identified, action is initiated to recoup amounts overpaid and cases involving fraud are referred for investigation.

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NOTE: Excerpts from a February, 1983 report from the Office of Inspector General (USDA) regarding overissuances in the food stamp program in several major cities are printed in another committee hearing. See Effectiveness of Federal Food, Nutrition, and Surplus Commodity Distribution Programs, June 13, 1983, Subcommittee on Rural Development, Oversight, and Investigations of the Committee on Agriculture, Nutrition, and Forestry, U. S. Senate.

(The following tables compare the error rates--totals and specific error rates for overissuances to eligible recipients ("overissuances") overissuances to totally ineligible recipients ("ineligible"), and underissuances among the States. The tables are from the "Semiannual Summary Report of Food Stamp Quality Control Reviews," October 1983.)

QUALITY CONTROL

COMPARISON OF NATIONAL PAYMENT ERROR RATES
OCTOBER-MARCH 1980 TO OCTOBER-MARCH 1982

STATE	10/79-03/80 REPORTED ERROR RATES	04/80-09/80 REPORTED ERROR RATES	10/80-03/81 REGRESSED ERROR RATES	04/81-09/81 REGRESSED * ERROR RATES	10/81-03/82 REGRESSED ERROR RATES
CONNECTICUT	12.30	11.10	16.80	16.24	16.45
MAINE	12.40	10.10	12.66	8.84	9.70
MASSACHUSETTS	12.80	11.50	16.05	11.77	15.89
NEW HAMPSHIRE	11.40	10.00	16.04	14.69	17.65
NEW YORK	21.60	18.40	19.20	15.74	16.76
RHODE ISLAND	18.20	15.10	14.20	11.19	12.02
VERMONT	13.60	11.10	11.33	10.56	12.10
DELAWARE	13.60	10.60	11.73	8.73	8.51
DIST. OF COLUMBIA	21.60	15.60	19.13	16.93	18.72
MARYLAND	17.20	16.90	16.69	16.74	12.33
NEW JERSEY	11.50	9.50	11.87	11.23	10.94
PENNSYLVANIA	13.70	8.60	13.56	10.61	13.70
PUERTO RICO	11.30	9.20	13.93	9.83	10.29
VIRGIN ISLANDS	14.90	15.20	19.71	13.19	16.45
VIRGINIA	9.10	9.90	10.14	9.02	9.81
WEST VIRGINIA	9.30	8.90	9.90	13.12	11.34
ALABAMA	10.80	9.60	10.72	7.99	7.49
FLORIDA	11.80	10.80	14.99	13.31	12.93
GEORGIA	13.40	11.00	12.56	12.45	8.76
KENTUCKY	9.30	8.20	10.83	8.76	8.99
MISSISSIPPI	12.30	13.60	12.42	11.61	12.82
NORTH CAROLINA	12.80	12.40	13.80	16.20	13.40
SOUTH CAROLINA	13.60	11.70	10.50	12.20	12.84
TENNESSEE	12.80	12.60	14.43	13.19	13.31
ILLINOIS	15.90	11.10	11.50	11.46	9.83
INDIANA	10.30	8.20	10.03	7.98	9.25
MICHIGAN	13.60	13.00	12.50	11.89	11.39
MINNESOTA	9.00	8.60	8.85	10.10	11.81
OHIO	9.20	10.30	10.14	8.93	10.91
WISCONSIN	13.80	12.00	14.32	13.19	14.78
ARKANSAS	9.80	8.30	11.24	12.09	12.59
LOUISIANA	13.20	10.10	12.23	13.32	12.48
NEW MEXICO	16.20	14.90	15.32	13.70	15.82
OKLAHOMA	9.60	9.00	12.24	11.91	11.48
TEXAS	9.80	9.00	10.91	11.91	13.08
COLORADO	9.50	10.50	14.32	16.81	17.28
IOWA	15.00	10.00	12.29	9.26	11.38
KANSAS	13.80	12.10	14.98	12.81	11.73
MISSOURI	9.70	10.50	10.87	10.35	9.10
MONTANA	10.00	11.40	17.37	14.34	8.92
NEBRASKA	18.30	13.30	13.18	12.89	14.35
NORTH DAKOTA	6.60	9.10	6.91	7.32	9.13
SOUTH DAKOTA	12.20	9.10	12.26	7.82	12.46
UTAH	12.00	14.00	11.52	11.30	10.14
WYOMING	11.50	11.40	12.64	14.42	9.12
ALASKA	13.40	13.60	22.45	27.99	23.37
ARIZONA	13.60	14.10	18.77	13.40	15.46
CALIFORNIA	9.80	11.30	11.66	9.11	12.05
GUAM	4.60	9.10	6.49	13.21	7.20
HAWAII	6.90	9.90	9.39	9.22	9.08
IDAHO	12.20	12.70	10.82	12.42	8.89
NEVADA	6.80	4.90	9.06	3.63	3.01
OREGON	11.50	10.60	8.57	13.03	13.45
WASHINGTON	9.50	9.30	10.60	9.58	12.05
U.S. TOTALS	12.60	11.20	13.03	11.84	12.18

*WITH THE EXCEPTION OF NEW YORK, ERROR RATES FOR THE NORTHEAST REGION WERE NOT REGRESSED FOR THIS PERIOD

QUALITY CONTROL

COMPARISON OF OVERISSUANCE PAYMENT ERROR RATES
OCTOBER-MARCH 1980 TO OCTOBER-MARCH 1982

STATE	10/79-03/80 REPORTED ERROR RATES	04/80-09/80 REPORTED ERROR RATES	10/80-03/81 REGRESSED ERROR RATES	04/81-09/81 REGRESSED * ERROR RATES	10/81-03/82 REGRESSED ERROR RATES
CONNECTICUT	4.50	3.50	6.44	5.63	6.98
MAINE	5.50	4.40	4.54	3.22	4.39
MASSACHUSETTS	5.70	5.00	6.33	4.08	5.05
NEW HAMPSHIRE	4.20	4.40	7.24	6.27	6.39
NEW YORK	7.40	6.40	7.23	5.58	6.28
RHODE ISLAND	7.10	6.60	6.94	5.47	4.16
VERMONT	7.30	4.90	3.76	3.11	4.43
DELAWARE	4.50	6.20	4.90	3.99	3.69
DIST. OF COLUMBIA	8.70	5.30	7.79	6.95	4.78
MARYLAND	6.20	6.70	5.81	5.03	5.32
NEW JERSEY	5.30	4.10	4.64	5.07	3.70
PENNSYLVANIA	5.00	1.70	4.05	3.26	5.04
PUERTO RICO	5.40	5.00	6.30	4.83	4.80
VIRGIN ISLANDS	7.90	5.00	6.49	5.77	4.27
VIRGINIA	3.90	4.60	4.37	2.72	4.11
WEST VIRGINIA	4.00	3.40	3.56	3.91	4.97
ALABAMA	4.80	4.40	4.01	3.98	3.49
FLORIDA	5.40	4.90	6.36	7.11	7.23
GEORGIA	5.40	3.90	4.63	6.09	3.80
KENTUCKY	4.20	4.00	4.09	3.46	4.14
MISSISSIPPI	6.00	6.00	6.28	6.58	5.03
NORTH CAROLINA	5.90	5.20	5.04	7.50	6.32
SOUTH CAROLINA	6.20	5.40	4.77	4.94	7.29
TENNESSEE	6.10	6.30	5.63	6.13	6.24
ILLINOIS	5.70	4.40	4.39	3.54	4.76
INDIANA	5.20	3.00	4.14	3.61	3.60
MICHIGAN	4.50	3.80	3.38	3.33	4.69
MINNESOTA	3.30	3.50	3.03	4.32	3.52
OHIO	3.70	3.90	4.78	4.45	4.12
WISCONSIN	4.70	3.50	4.89	3.89	4.02
ARKANSAS	5.30	4.10	5.46	4.97	5.26
LOUISIANA	5.10	3.90	6.10	6.16	5.98
NEW MEXICO	5.10	5.30	6.86	5.80	6.35
OKLAHOMA	3.70	3.50	3.84	4.95	3.40
TEXAS	4.80	3.90	3.93	5.09	6.72
COLORADO	4.00	4.70	5.97	6.62	4.84
IOWA	5.80	3.40	5.21	3.68	3.49
KANSAS	5.10	5.10	5.01	3.84	3.69
MISSOURI	4.90	3.70	4.39	4.60	4.65
MONTANA	3.70	6.00	6.33	5.68	5.65
NEBRASKA	4.00	5.10	6.93	2.50	2.91
NORTH DAKOTA	2.20	1.70	4.32	2.04	1.67
SOUTH DAKOTA	2.90	4.50	5.68	4.23	6.63
UTAH	4.30	3.80	5.01	3.82	2.56
WYOMING	5.70	1.70	2.03	3.03	3.33
ALASKA	4.50	6.70	6.78	4.73	6.89
ARIZONA	6.00	4.90	6.27	5.02	6.42
CALIFORNIA	3.60	4.70	4.48	3.33	4.40
GUAM	2.50	3.10	2.98	3.19	1.44
HAWAII	2.20	2.00	2.90	1.70	2.78
IDAHO	5.30	3.20	3.40	4.04	3.80
NEVADA	3.90	0.70	2.03	0.73	1.20
OREGON	5.50	4.40	4.08	5.24	5.40
WASHINGTON	3.80	2.70	4.84	5.65	6.02
U.S. TOTALS	5.20	4.50	5.15	4.87	5.13

*WITH THE EXCEPTION OF NEW YORK, ERROR RATES FOR THE NORTHEAST REGION WERE NOT REGRESSED FOR THIS PERIOD

QUALITY CONTROL

COMPARISON OF INELIGIBLE PAYMENT ERROR RATES
OCTOBER-MARCH 1980 TO OCTOBER-MARCH 1982

STATE	10/79-03/80 REPORTED ERROR RATES	04/80-09/80 REPORTED ERROR RATES	10/80-03/81 REGRESSED ERROR RATES	04/81-09/81 REGRESSED * ERROR RATES	10/81-03/82 REGRESSED * ERROR RATES
CONNECTICUT	5.10	6.80	7.70	8.07	6.36
MAINE	4.90	3.60	5.22	3.28	3.40
MASSACHUSETTS	5.40	4.90	6.04	6.24	8.60
NEW HAMPSHIRE	4.90	4.00	6.05	6.03	9.21
NEW YORK	9.50	8.40	7.80	6.83	7.78
RHODE ISLAND	8.00	5.70	4.81	3.72	4.55
VERMONT	4.70	4.00	5.68	5.88	5.18
DELAWARE	7.80	1.30	2.94	3.08	2.31
DIST. OF COLUMBIA	9.50	6.20	6.00	5.90	6.99
MARYLAND	8.50	7.80	7.93	9.64	9.13
NEW JERSEY	4.50	3.40	5.39	3.73	4.80
PENNSYLVANIA	6.40	4.70	6.44	5.40	6.83
PUERTO RICO	4.00	2.60	5.56	2.90	3.64
VIRGIN ISLANDS	4.80	7.20	8.27	2.74	4.12
VIRGINIA	3.30	3.50	3.81	4.03	2.86
WEST VIRGINIA	3.50	3.90	4.14	6.33	3.92
ALABAMA	3.90	3.50	4.46	2.31	1.93
FLORIDA	3.70	3.70	6.10	6.11	3.54
GEORGIA	5.00	4.90	4.97	4.32	2.81
KENTUCKY	3.90	2.30	4.97	3.10	2.93
MISSISSIPPI	4.10	4.60	3.93	3.77	3.87
NORTH CAROLINA	4.30	4.10	4.82	5.33	3.24
SOUTH CAROLINA	5.30	4.10	3.63	4.71	4.28
TENNESSEE	4.20	4.00	6.18	4.71	4.73
ILLINOIS	6.30	3.50	4.49	4.46	2.92
INDIANA	3.00	2.80	4.90	3.58	3.20
MICHIGAN	6.00	6.30	6.00	5.71	4.39
MINNESOTA	3.70	2.80	3.67	4.01	4.71
OHIO	4.00	5.20	3.54	2.78	4.57
WISCONSIN	6.10	5.10	6.23	5.59	6.61
ARKANSAS	3.20	2.40	3.34	2.95	4.23
LOUISIANA	5.90	3.80	4.23	4.40	3.90
NEW MEXICO	8.70	7.30	5.76	8.06	6.74
OKLAHOMA	3.90	2.90	5.98	3.84	4.11
TEXAS	3.30	3.30	5.00	4.51	4.09
COLORADO	4.40	4.10	5.73	7.26	9.74
IOWA	7.10	4.70	5.44	4.22	5.69
KANSAS	6.80	4.10	6.59	6.84	6.46
MISSOURI	3.10	4.30	4.23	3.65	2.19
MONTANA	4.20	4.20	9.05	5.91	1.66
NEBRASKA	10.50	5.00	4.46	8.52	6.82
NORTH DAKOTA	2.90	6.20	0.07	3.79	5.49
SOUTH DAKOTA	7.20	3.80	4.80	1.95	4.47
UTAH	5.80	7.70	3.47	3.49	4.63
WYOMING	5.20	8.30	9.49	5.40	5.03
ALASKA	5.90	6.60	14.60	20.19	14.32
ARIZONA	5.10	5.80	8.82	4.40	6.21
CALIFORNIA	3.60	3.10	4.18	2.33	4.88
GUAM	1.70	5.30	2.00	8.04	3.54
HAWAII	2.60	2.20	4.91	5.23	3.90
IDAHO	5.30	6.80	5.36	6.23	3.57
NEVADA	1.20	2.20	1.61	2.30	0.23
OREGON	3.80	4.70	3.06	5.41	6.58
WASHINGTON	4.50	5.20	4.16	1.49	4.27
U.S. TOTALS	5.00	4.40	5.27	4.57	4.66

*WITH THE EXCEPTION OF NEW YORK, ERROR RATES FOR THE NORTHEAST REGION WERE NOT REGRESSED FOR THIS PERIOD

QUALITY CONTROL

COMPARISON OF UNDERISSUANCE ERROR RATES
OCTOBER-MARCH 1980 TO OCTOBER-MARCH 1982

STATE	10/79-03/80 REPORTED ERROR RATES	04/80-09/80 REPORTED ERROR RATES	10/80-03/81 REGRESSED ERROR RATES	04/81-09/81 REGRESSED * ERROR RATES	10/81-03/82 REGRESSED ERROR RATES
CONNECTICUT	2.70	0.80	2.66	2.34	2.89
MAINE	2.00	2.10	2.90	2.34	1.91
MASSACHUSETTS	1.70	1.60	3.60	1.45	2.14
NEW HAMPSHIRE	2.30	1.60	2.75	2.39	2.03
NEW YORK	4.70	3.60	4.11	3.20	2.68
RHODE ISLAND	3.10	2.80	2.33	2.00	3.31
VERMONT	1.60	2.20	1.89	1.57	2.47
DELAWARE	1.30	3.10	3.89	1.64	2.51
DIST. OF COLUMBIA	3.40	4.10	5.20	4.41	7.32
MARYLAND	2.90	2.40	2.93	2.07	1.66
NEW JERSEY	1.70	2.00	1.81	2.39	2.41
PENNSYLVANIA	2.30	2.20	3.09	1.93	1.43
PUERTO RICO	1.90	1.60	2.07	2.07	1.85
VIRGIN ISLANDS	2.20	3.00	3.26	4.34	0.93
VIRGINIA	1.90	1.80	1.73	2.26	2.84
WEST VIRGINIA	1.80	1.60	2.20	2.88	2.45
ALABAMA	2.10	1.70	2.23	1.70	2.07
FLORIDA	2.70	2.20	2.33	2.08	2.16
GEORGIA	3.00	2.20	3.36	2.05	2.16
KENTUCKY	1.20	1.90	1.79	2.20	1.92
MISSISSIPPI	2.20	3.00	2.59	1.25	2.91
NORTH CAROLINA	2.60	3.10	3.94	3.37	3.84
SOUTH CAROLINA	2.10	2.20	2.10	2.59	1.33
TENNESSEE	2.90	2.10	2.62	2.35	2.35
ILLINOIS	3.90	3.20	2.42	3.44	2.15
INDIANA	2.10	1.40	0.99	0.80	2.45
MICHIGAN	3.10	2.90	3.12	2.63	2.30
MINNESOTA	2.00	2.30	2.15	1.84	1.36
OHIO	1.90	1.20	1.82	1.69	1.82
WISCONSIN	3.00	3.40	3.20	3.71	4.15
ARKANSAS	1.30	1.80	2.44	2.97	3.10
LOUISIANA	2.20	2.40	1.90	2.96	2.60
NEW MEXICO	2.40	2.30	2.44	1.77	2.72
OKLAHOMA	2.00	2.60	2.42	3.12	3.97
TEXAS	1.70	1.80	1.96	2.31	2.27
COLORADO	1.10	1.70	2.36	2.80	2.70
IOWA	2.10	1.90	1.37	1.33	2.21
KANSAS	1.90	2.90	2.93	2.12	1.60
MISSOURI	1.70	2.90	2.04	2.10	2.30
MONTANA	2.10	1.20	1.88	2.67	1.62
NEBRASKA	4.00	3.20	2.17	1.87	4.02
NORTH DAKOTA	1.90	0.80	2.91	1.49	1.97
SOUTH DAKOTA	2.10	0.80	1.78	1.63	1.35
UTAH	1.90	2.50	3.04	4.16	2.96
WYOMING	0.60	1.40	1.13	1.19	0.75
ALASKA	3.00	2.30	0.99	2.73	1.98
ARIZONA	2.90	3.40	3.60	3.93	2.81
CALIFORNIA	2.60	3.30	2.96	3.33	2.75
GUAM	0.40	0.70	1.91	1.96	2.22
HAWAII	2.10	1.70	2.38	2.89	2.40
IDAHO	1.60	2.70	1.99	2.02	1.32
NEVADA	1.70	1.80	1.41	0.97	1.96
OREGON	2.20	1.90	1.43	2.21	3.20
WASHINGTON	1.20	1.40	1.97	2.42	1.66
U.S. TOTALS	2.40	2.30	2.62	2.41	2.39

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